The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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By HOWARD WINGATE

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WHAT 1st QUARTER EARNINGS REVEAL
By WARD GATES

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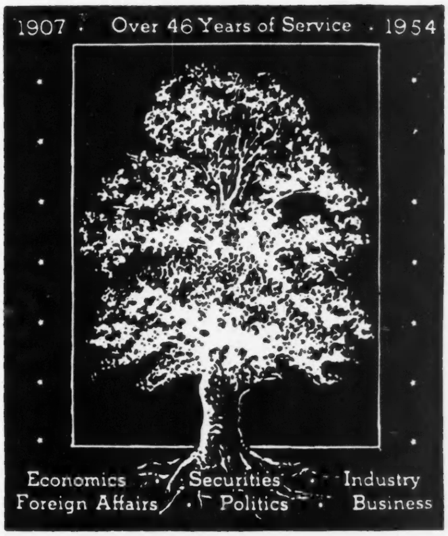
THE MAGAZINE OF WALL STREET

. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

ONGRESS MUST NOW SPEED UP! In our April 3rd ssue, we commented somewhat acidly on the slowess of progress in putting the President's program hrough Congress. It is now six weeks later but side from passage of the St. Lawrence Waterways ill progress still remains invisible. Since the schedle calls for adjournment of Congress by the end of uly, it is obvious that time is running very short nd there is danger that in the final rush to close, ction may not be taken on some very highly necesary bills.

At this stage, fault-finding is not useful. It would e more constructive to urge that the President and ongressional leaders charged with the responsiility of getting at the unfinished business speed up heir efforts at once. Unless this is done, come elecion time, it may well be that the Administration nd its lieutenants in Congress will be boxed in by he inevitable results of a lack of political assertiveess. That would be a pity as the President has laid own a truly fine and comprehensive program which he nation wants to see put into being before the ession winds up.

PERMANENTLY HIGH COST F LIVING. Apparently, there s no hope for a drop in the ost of living. According to he National Industrial Conerence Board, the purchasing ower of the dollar in March his year was 54.7 cent (Janary, 1939–100) or less than t was a year ago when the ollar was worth 56.3 cents.

To the contrary notwithstanding, business dip, recession, "rolling adjustment", or whatever it is called, prices stay up and the cost of living remains on an exceedingly high plateau. Conditioned by now to the altered value of the dollar, probably no one in America believes that its old value, or anything near it, can be restored during our lifetime.

A national debt more than six and a half times as big as it was just before the war, or $270 billion against $40 billion, discloses the extent of our inflation. As there is no prospect of cutting the debt for at least several years (the statutory limit will probably be raised soon to $290 billion) there probably will be no relief of more than a minor kind to the millions of families who are finding the high cost of living a chronically difficult problem.

The basic reason, of course, for the greatly lowered value of the dollar is war and preparations for war. From 1940, for example, our military expenditures have amounted to the titanic sum of $540 billions or over $3,000 for every man, woman and child living in the United States.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

A WRONG MOVE. Senator Barry Goldwater's sweeping amendment to the Taft-Hartley law, now shelved, would have made the forty-eight states, rather than the Federal government, supreme in matters relating to wage and fair labor standards. The Senator's idea clearly was that the states can do a better job of handling labor relations.

A strong case, indeed, can be made out for those who argue that the universality of U.S. labor regulations does not permit enough flexibility where local or regional conditions demand variations from the workings of the national law. Be this as it may, it is probable that what would amount to effectual substitution of state for federal law would eventually create more evils than it eliminates. In practice, for example, there would be nothing to prevent individual states from removing existing wage standards in order to attract industry from other states. This obviously could create quite a chaotic situation in industry itself.

Behind the Goldwater proposal undoubtedly was the desire to end the power of the great unions to bargain with industry on a national scale. No doubt this concentrated power has led to many evils which placed industry—lacking the semi-authoritarian base of the unions—at a severe disadvantage. The theory under the proposed amendment was that the unions would be compelled to negotiate on a state-wide basis, thereby placing industry on a more even level with the unions with respect to negotiating disputes.

It seems to us that the answer is not to create forty-eight little "Taft-Hartleys" in place of one. A better approach would be to eliminate the inequalities in the present law, placing both parties on an equal basis. Since political conditions have not permitted effective revision during the current session of the Congress, action will be postponed until next year when election campaign considerations will play no part and the subject can be treated on its merits.

RAIL INCOME AND OPERATING COSTS . . . The Association of American Railroads has reported a 50% drop in net earnings for the major systems in the first quarter of 1954, as compared with the corresponding period last year. Net income of Class I roads for the period was estimated at $88 million against $185 million. According to these returns, the roads had an average net return on property investment far below the 3.77% reported for the 12 months ended March 31, 1954 and the 4.26% returned for the year ended March 31, 1953. As such, the performance obviously is far from satisfactory.

Further analysis, however, indicates that the situation is now probably commencing to improve. March figures for individual roads, for example, show that the carriers have finally achieved better control over operating costs after spending the first two months of the year in getting themselves into shape to adjust expenses to the decline in gross. The situation, of course, is uneven as most roads in the East were unable, on account of the preponderance of unprofitable commuter traffic, to hold their expenses down in proportion to the decline in the volume of revenues. Western and Southern roads have recently had a better record in this regard.

Despite current indications that the roads are producing a better record of net earnings to gross than in the early part of the year, general prospects for business do not indicate that the ratio will be much improved in coming months over the present. The reason for this is there is a limit under present conditions of high wages and union restrictions, to a reducton in operating costs. Nevertheless, it is to be expected that the roads will continue to make every effort to bring their expenses into line with current operating conditions. It is probable, however, that the securities of those roads which can achieve the greatest success in this respect will attract the greatest investment interest in coming months as compared wih roads which are unable to control their costs effectively.

PLANNING IN ADVANCE . . . It has long been recognized that a truly effective federal public works program, as an anti-depression measure cannot be attained unless it is administered by a central governmental agency. Such a program would have to be coordinated at three levels—federal, state and local. Planning at all three levels would be interlocked and based on centralized information on the requirements of the various public authorities, both as to the desirability of projects in view and as to the amount of finances available, from whatever source.

Without such an all-embracing plan, it would probably be difficult, if not impossible, for an adequate public works program to be set in motion. Under the present set-up, operations would be conducted more or less at a haphazard pace and would lose in effectiveness as a repellent to any seriously recessive influences in the economy that might develop.

It is true that the federal government maintains six-year public works plans which are continuously revised, and the information thereby available at all times no doubt would prove useful in the initial steps that would have to be taken in the event of an economic emergency. Obviously, this is better than nothing. Much more, however, must be accomplished by way of making full preparations for any emergency that may occur—though it is to be hoped that this will never be necessary—if the nation is to be able to use its full resources in time.

The government should give serious consideration to the need for the formulation of an over-all plan that will bring into its scope the full power of federal, state and local governments in planning for an effective public works program far in advance of actual need.

A SOUND METHOD IN INVESTMENT . . . The persistent strength of the best quality common stocks is mainly attributed to the operations of large institutional investors. These organizations are not influenced materially by considerations of yield and are, therefore, not deterred by the high levels at which the best grade stocks are selling. Furthermore, as their funds accumulate, they are prepared to make new investments at lower levels if the market should decline, so that they are able to take advantage of these normal price swings. This, of course, is known as "dollar averaging". It is a method which has been well tested over a period of years. While particularly adapted to the needs of large institutional investors, individuals would also find its use profitable over a period of years. As with institutional investors, the best results, under the system of "dollar averaging", would be achieved in the best grade stocks.

It is well to remind investors, however, that there is no adequate substitute for common sense. Even such a tried method as "dollar averaging" must be employed with unfailing discrimination.

As I See It!

By JOHN CORDELLI

SPARE US FROM OUR FRIENDS

No matter how it is explained away, it may as well be admitted that American diplomacy has suffered a severe defeat in Geneva. One can only commiserate with Secretary of State Dulles, who in effect, found himself abandoned by our allies. To add to his troubles, he must now face a barrage of criticism at home.

Yet, it is unfair to hurl reproaches at the head of the Secretary for his failure at Geneva. Perhaps his chief fault was that he relied too heavily on the British and French governments. The British foreign office, in particular, has played an ignominous role in the proceedings. In a desire to appease the Communist powers, it virtually cut the ground from under Mr. Dulles. This move was heralded when Prime Minister Churchill recently sent a message of warm good wishes to the Soviet government. The French government is in a somewhat different position as it is in urgent need of a truce in Indo-china and has lost the power to maneuver effectively.

In any case, Mr. Dulles went to Geneva knowing well that only a firm and united stand by the chief Western powers could prevent cession of Indo-china to the communists, in view of the disastrous military situation. Whether it is in fear of Nehru's well-known attitude or because it now sees itself in the position of "honest broker" between East and West, rather than as an active participant in the cause of the free world, the British government has, for all practical purposes, disassociated itself from the United States in its strenuous effort to bring peace to Asia without sacrificing the interests of the democratic nations.

One can only hope that this is a temporary aberration, and that the British will come to their senses. A ray of hope is seen in the firm stand taken by two members of the Commonwealth, Australia and New Zealand. Both have ranged themselves firmly behind the United States. We also have some measure of support from purely Asiatic nations such as Thailand, the Phillipines, Formosa, South Korea and Japan. The latter do not present much military strength compared with the colossal power of Soviet Russia and Red China, it is true, but at least they offer a nucleus for a Pacific NATO which is what Secretary Dulles has in mind as the only available means of halting the communist onrush, outside of direct military action. This is a vital necessity, even if the communists, as is not unlikely, force a "peace" in Vietnam more or less to their liking.

SHUCKS, ANOTHER DOORKNOB

Seibel, in the Richmond Times-Dispatch

Secretary Dulles was not only left in the lurch in Geneva by the British government but his position has been jeopardized by the confused and contradictory statements on the situation in Indo-china which, in recent weeks, have been emanating from high quarters in Washington. Surely, the situation in the Far East is too serious, and the possible consequences too enormous to be dealt with in such an uncontrolled manner.

Whether, underlying this phantasmagoria, this is a subtle attempt to confuse the communists, we do not know, but it is certainly having the effect of confusing the American people, and it is probably not fooling the communists in the least. A moratorium ought to be called on statements by high government officials, anonymous or otherwise, that deal with life-and-death foreign problems until there is a suitable degree of coordination in the Administration itself. It would be the understatement of the year to assert that this is now lacking.

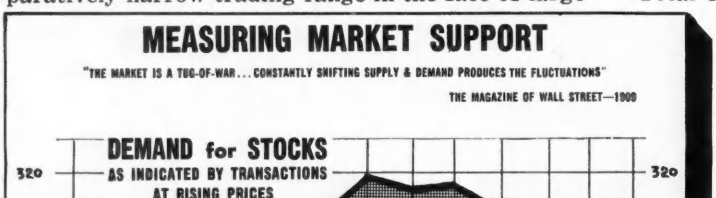
Stocks Highly Sensitive To Earnings—Dividend Trend

In a continuing mixed market, average stock prices have risen considerably further, with rails participating after a long lag. There is no fresh stimulus in the basic factors. Confidence is feeding on confidence, and may become over-confidence as income yields progressively shrink. Hold reasonable reserves. Emphasize careful selectivity.

By A. T. MILLER

Over the last fortnight the average daily total of declines in prices of individual stocks came close to equalling the total of advances. Thus, it remains a highly selective market, with the performance of "the averages" by no means decisive as regards the investment or speculative results one obtains. However, demand remains concentrated to a considerable degree in prominent, so-called leading stocks. For both reasons, and especially the latter, the Dow industrial average materially extended its now protracted phase of advance begun last September, rising above the 320 level to the highest point seen since October, 1929.

After holding for nearly three months in a comparatively narrow trading range in the face of large year-to-year shrinkage in earnings, rails finally "joined the parade' sufficiently for this average to break through its prior recovery high of mid- February. Its upward push was paced by better-grade dividend payers, leaving the performance to date of most marginal issues no more impressive than that of similar industrial stocks. Reports of March rail earnings provided at least negative help, in that reduction from a year ago, reflecting mainly economies in maintenance outlays, was considerably less than in February and January.



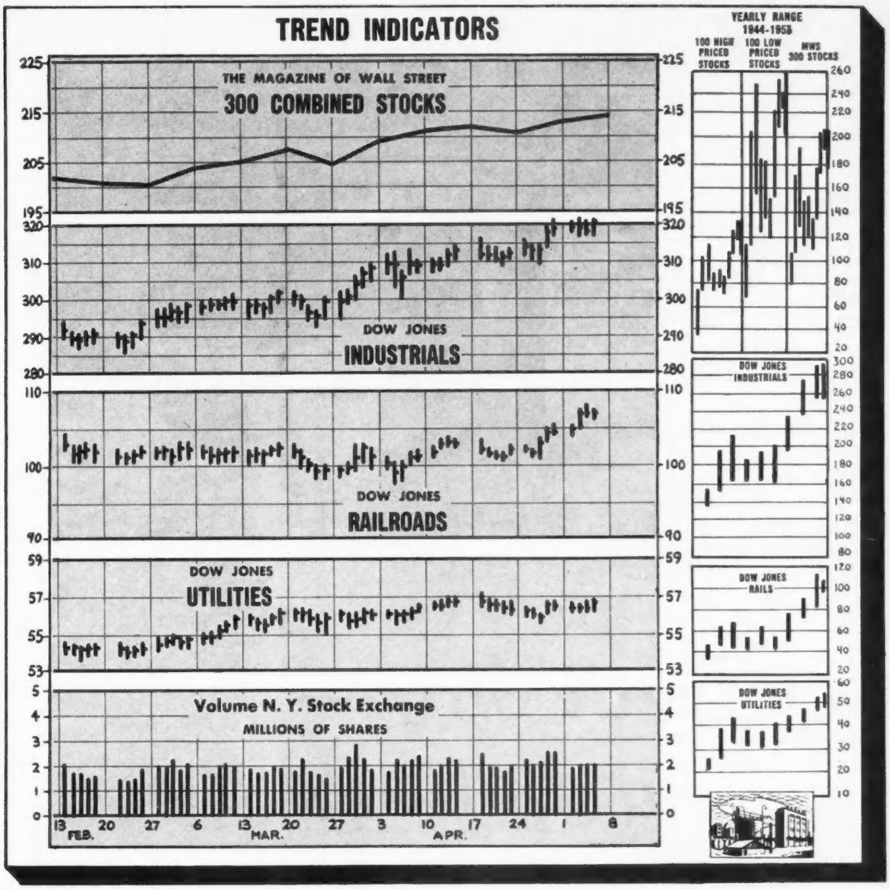
Emphasis On Dividends

Total railroad earnings in March were off 32% from a year ago, compared with 62% in February and 69% in January. The $64 question is how much they will be off for the year. The answer depends on whether general business activity holds at about the present level, averages lower than now in the second half, or averages higher. The market seems to be assuming a shrinkage of roughly a quarter to a third from 1953 earnings. If about right, that would leave dividends of stronger railroads well covered. In judging market possibilities in rails, as well as of industrials and utilities, buyers are obviously putting heavy emphasis on dividend prospects. They are better for leading southern and western roads than for eastern. The latter continue to show the widest year-to-year declines in earnings, southern roads the smallest.

The utility average has been stymied for nearly a month, holding close to its mid-April bull-market high but unable up to this writing to get above it. There is good reason why demand in this section of the market has become generally less aggressive at least temporarily. (1) The average had risen over 18% from the low point of last June, a wide gain as utility swings go; (2) it is sensitive to the trend of the bond market, the advance in which has been checked for the time being; and (3) average utility dividend yields have fallen below 5% to the lowest level since 1948. However, in

utilities it is also a market of stocks. A minority of individual issues have edged up to new highs over the last fortnight; and, regardless of their particularly low yields, growth utilities, like most growth industrials, remain in strong demand. To cite but two outstanding examples in recent performance: Central & South West and Florida Power & Light.

There is no fresh stimulus in the news for the market rise to feed on—although investment and speculative confidence can at times feed on itself within unpredictable limits, just as fear can at times feed on itself, both having been amply demonstrated in the past. The decline in industrial production has halted, but without any general rebound yet evident. Some think the next significant change will be a renewed rise by autumn, others that a further sag is ahead, still others that change from the present level, either way, may be slight well into 1955. Time alone will tell.



Meanwhile, recession to date has been too mild to disturb investors. It amounts to about 10% in industrial output, but that is only one measure of economic activity. Overall consumption has undoubtedly held at a higher level than production. In that, if it continues, are the makings of higher production for inventory replenishment and satisfaction of consuming needs somewhere along the line. Copper is an interesting case in point. Production was previously cut in an effort, thus far successful, to stave off or defer the long-expected break in the 30-cent price. In recent days Kennecott announced a partial reversal toward higher output to meet immediate demand, the news contributing to some further recovery in copper shares.

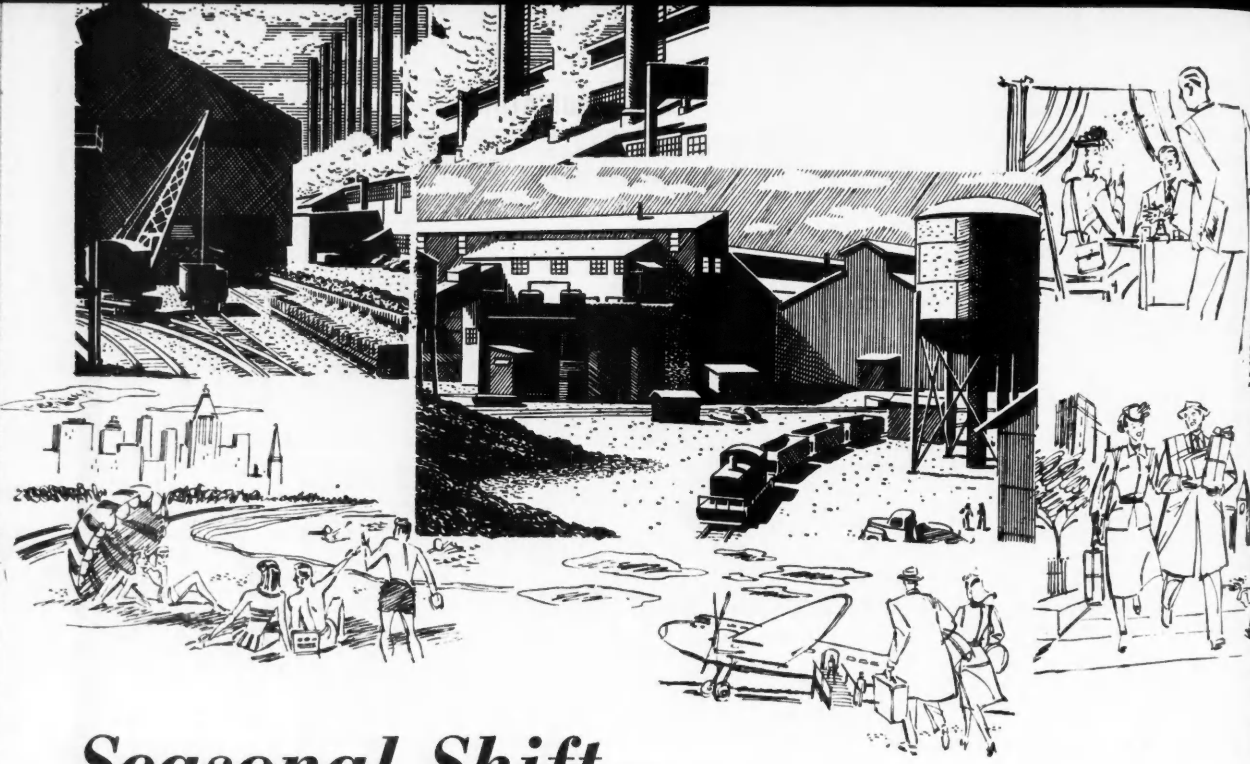
In terms of some of the broadest economic measures, recession from a year ago to date ranges from none in disposable income (aided by lower income taxes) and in over-all consumers' outlays, to 2.2% in employment and 3.3% in gross national product. Moreover, recession so far centers largely in the U. S., contrasting with past experience. Economic activity in most European free nations is well above a year ago, giving proportionate support to our export trade and to world commodity prices.

First-quarter industrial earnings reports were highly mixed, some bad enough to cut prices of affected stocks, some good enough to boost prices of other stocks. Individual issues have been sensitive to these developments. On average profits were about 7% above a year ago. Total dividends remain at a record level, with boosts here and there more than balancing some cuts and omissions.

Stocks with above-average basic appeal have, of course, been getting progressively dearer in price. Current yields on industrial growth stocks now exceed 4% in few instances, and range down to less than 1% in some. The general yield on medium-to-good industrials is down around 5%, against 6% or so as late as the start of this year. Its spread over high-grade corporate bond yields has been cut by some 20% since the start of the year. It is true that yields and price-earnings ratios remain more conservative than at past major bull-market highs—but the market has gone from over-pessimism last September to confidence in easy money, and tax prospects and long-term business, and now to still more confidence. It could quickly become over-confidence.

Strong stock groups at this writing include autos and auto parts, building, chemicals, coppers, dairy products, food brands, machinery, office equipments, oils, paper, food chains and steels. How little that can mean in some cases is emphasized by the fact that all listed auto stocks except General Motors are far under earlier highs; and by wide divergence in stocks of parts makers between those largely supplying General Motors and Ford and those heavily dependent on Chrysler and the smaller car companies, whose sales have contracted materially.

You should continue to follow a carefully selective investment policy, and to hold reasonable liquid reserves intact.—Monday, May 10.



Seasonal Shift— or Definite Business Turn?

By HOWARD WINGATE

Short-term indicators of business conditions now point affirmatively to a slowing of the decline that began in mid-1953. It is even possible to argue that the decline actually ended by the middle of March. But there remains, as yet, little clear evidence that business production, sales and earnings are about to enjoy a new round of expansion. For the time being, the business trend appears to be in a balance of opposing forces, and a kind of fragile stability is in prospect for at least several months. Seasonal influences are naturally playing a part.

This is a capsule summary of the business outlook in early May. It reflects the fact that the main weaknesses which caused the 1953-1954 downturn—the necessity to curb inventory growth, and some slack in markets for consumer durables and defense goods—have been temporarily exhausted, while the great market provided by the general demands of the American consumer for all goods and services is not yet ready to resume its historical growth.

Signs that the sharp decline in business is about to end, or has already ended, are now actually more numerous than they have been at any time in the last nine months. They are also more numerous than in mid-1949, when the first postwar recession came to its close.

Steel production, after subsiding rapidly in late 1953 and early 1954, has stabilized at about 1.6 million tons per week. In recent weeks, the rate has begun to creep upward for a growing number of individual producers, and the placement of new steel business by steel-consuming industries – notably farm equipment and constructors—has begun to rise on a modest scale. Steel scrap prices, which are normally a fairly accurate barometer of conditions in the industry, have strengthened.

Production and shipments of paperboard, which furnish reasonably reliable indicators of general business conditions, have been firm throughout the recession. Prices, particularly of raw materials, which had been weak a full year prior to the recession, have begun to tend upwards.

New orders in all durables industries rose in February, and again in March. Hours worked in manufacturing industries have about stabilized, after their precipitous decline of the last nine months. The Federal Reserves' industrial production index—a broad although not very sensitive indicator of the business trend—has been declining only slowly since January though on a quarterly basis (see chart) production is well down from the end of 1953. In particular, the decline in the soft-goods component of the index has stopped altogether, despite continuing weakness in textiles and apparel.

Unemployment insurance claims have stabilized at a level which suggests little or no further rise in total unemployment from the 3.7 million level of early March. Judging from department store sales figures and reports from the automobile market, retail trade in April, seasonally adjusted, was not very different from the March rate. Construction contract awards have remained high – in March,

awards were fully 13% above a year ago.

Government spending for defense, while it fell very sharply from the fourth quarter of 1953 to the first quarter of 1954, has actually been in a month-to-month uptrend since January, and little if any decline is likely in the second quarter.

This is not a haphazard collection of unrelated indicators. They strongly suggest, as a group, that all three of the principal factors involved in the recent decline have temporarily stabilized.

In mid-1953, inventories held by manufacturers, wholesalers and retailers amounted to about $81 billion. This was somewhat in excess of a normal relationship to sales, even under conditions of extremely high sales rates. More importantly, inventories were still rising at a $7-billion annual rate, while sales were no longer rising at all, and inventory-sales ratios in most industries were getting progressively more ominous.

Inventory Adjustment

Since mid-1953, business has reversed its inventory policy from a $7-billion rate of accumulation to a $5-billion rate of liquidation. This has meant a $12 billion loss of production activity. It has also meant a complete inversion of the 1953 status of inventory as a factor in current demand. Stocks are now draining off, while sales have evidently stabilized, and inventory-sales ratios are now improving though a good deal of improvement is still needed. In the past month, it has become increasingly evident that business generally does not desire to increase its rate of liquidation—or cannot increase it without endangering the smooth flow of production and sales. The rate of liquidation has therefore begun to slow in many industries.

Thus, the inventory adjustment itself, which was by far the most important element in the 1953-1954 decline, is now moderately well advanced. This is implied in the findings of a recent survey of the National Association of Purchasing Agents, which has reported that in April there occurred a general firming in industrial business, and the beginning of improvement in orders. These signs are among the first indications that the urgency is coming out of inventory liquidation, although liquidation itself may continue at a slower rate for several more months.

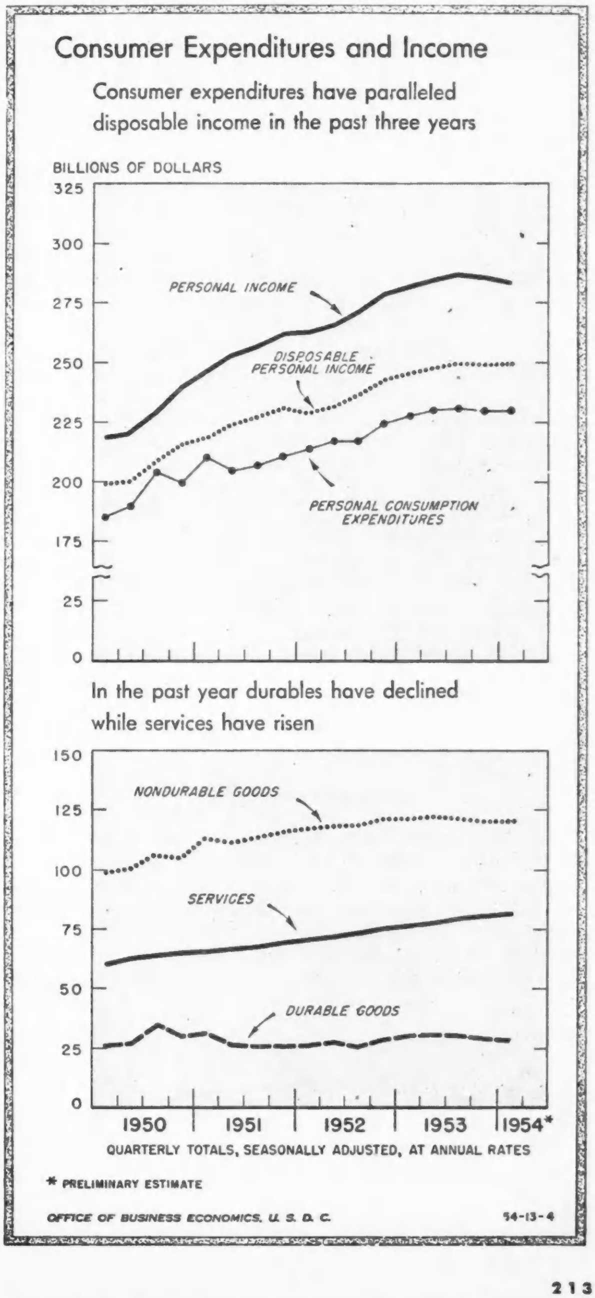
Consumer Durables Markets

A second condition of the mid-1953 downturn that somewhat aggravated the effects of inventory adjustment was a sharp downward movement in consumer demand for durable goods—particularly automobiles. Between the second quarter of 1953 and the first quarter of 1954, sales of automobiles and homefurnishings fell from an annual rate of over $30 billion to about $28 billion. The drop contributed to a strong desire on the part of retailers and manufacturers to reduce inventories, and the two elements together—falling final demand, and falling demand for inventory—broke the production pace in most consumer durables lines.

For appliances and homefurnishings, this adjustment seems to be substantially completed for the time being. Volume has recently held up fairly well, and total finished goods inventories are no longer seriously out of line. In automobiles, sales have halted their abrupt decline, and are now in the middle of a more or less normal seasonal upturn. (Automobile inventories, however, remain substantially out of line: see below.) Aggregate consumption expenditures for durables, including automobiles, appliances, homefurnishings, and such miscellaneous items as optical goods, have apparently settled into balance.

Defense Spending

The third major weakness that apeared in late 1953 and early 1954 was the pace of defense spending. In the middle of 1953, defense procurement agencies cut back very sharply on their rate of ordering, particularly of land armament and sub-



sistence items. The result was a relatively sharp drop in defense outlays of the federal government in late 1953 and early 1954.

That drop is apparently over, and the level of defense spending in the second quarter of 1954 will in all probability be little changed from the first quarter. In fact, a recent Defense Department announcement estimating total expenditures for all of fiscal 1954 implies that the spending rate in the second quarter may even be somewhat higher than in the early months of 1954.

These three components of total national demand—demand for inventory, consumer durables, and defense goods—accounted for a total drop of about $19 billion (annual rate) in gross national product between the second quarter of 1953 and the first quarter of 1954. There were, of course, offsetting increases, particularly for consumer service expenditures, and outlays by state and local governments, so that the net decline in national product has been only about $12 billion. These offsetting advances are very likely to continue in the second quarter, since they arise from long-term trends not closely related to current business conditions. It therefore seems altogether possible that the basic statisical measure of business activity—the gross national product—will show little or no decline, or even a slight rise, in the second quarter.

This would serve to confirm a fact that is already more or less evident from less complete statistics: business has successfully weathered at least one round of a basic adjustment in the business environment. But is this a one-round fight? Does business go up markedly here? Or must it hesitate a while, perhaps sinking further before it begins a new climb?

This is, obviously, a much broader question, with a greater margin for error, than the question whether business has temporarily stopped declining. The best way to approach it is through setting up a balance sheet of probable expansive and contractive forces over the next year. Such an analysis suggests this conclusion: the statistical position of general business in the very short term—the next three months—is actually somewhat stronger than for last 1954 and early 1955. For the moment, the most probable pattern of business conditions is short-term stability, or even a rise, followed by a further decline. This assumes no violent change in international tensions, and no major change in the Federal budget outlook, for either spending or tax rates.

Expansive Forces

For the next several months, inventory is a modestly bullish element of business conditions. This does not mean that the inventory adjustment is complete, by any means, but that the rate of inventory liquidation is very likely to fall from its first-quarter rate of $5 billion. In fact, the rise of new orders in February and March, in the face of the fact that final demands for goods are still easing somewhat, implies a lower rate of inventory liquidation in May and June. This falling rate of liquidation, other things being equal, will provide a mild stimulus to industrial production.

Expenditures by state and local governments will continue to provide a slight upward bias to construction outlays for perhaps another six months, despite a falling rate of construction outlays for military and industrial purposes.

Consumer outlays for services will continue to rise for several more months, and then stabilize in the fall. (The major component of services outlays is rent, and rentals have been rising progressively more slowly in recent months.)

The consumer saving rate has continued to run at historically high levels in early 1954, partly because of tax reduction. For the short term—the next few months—an upward shift in consumer expectations regarding their incomes could well produce a moderate rise in spending, partly at the expense of saving.

Contractive Forces

While most of the expansive forces are of very short-term nature, the contractive forces are mostly of medium term.

Defense outlays, according to budget estimates for fiscal 1954 and 1955, are likely to be relatively stable in the second and third quarters of calendar 1954, and then to decline about 2% or 3% per quarter through mid-1955. Thereafter, assuming no change in the international situation, they are likely to level off in total, although the shift in emphasis away from the army and toward the air force, electronics and atomic energy will probably continue. For a year beginning in late 1954, defense itself is thus a contractive element in the outlook.

For that same period, consumer spending is not likely to be intensely strong. There is considerable evidence that in consumer durables markets essentially uneconomic price concessions are being utilized to maintain volume. In 1953, the United States automobile market was oversold by virtue of price concessions that left dealers in a profitless prosperity. Evidently—judging from second-quarter automobile production schedules and the level of new car stocks—the summer of 1954 will see a second round of this overloading of the market. The same condition, although on a much smaller scale, may arise in many appliance lines. The necessity for these price concessions is revealing of the state of these markets, and overloading them merely postpones the day of adjustment.

Related to durables markets is, of course, the condition of instalment credit indebtedness. Judging from the aggregate figures, indebtedness since the turn of the year has been declining faster than incomes, and the percentage relationship of debt to income has declined. This is a spurious relationship, however. Incomes of those sectors of the population which make the broadest use of instalment credit have declined sharply under the impact of unemployment and falling hours of work, with resultant loss of overtime pay. It seems probable that even under reasonably favorable assumptions about the

future of personal incomes, instalment indebtedness will not begin to expand again until early 1955.

While total construction activity may continue to expand for several months, by late in the year the expanding components are likely to be more than offset by mild declines in both residential and commercial (stores, garages, offices, warehouses) building. As long as incomes and employment were rising, residential and commercial construction was catching up with demand only slowly: now that incomes and employment have been contracting the catchup has accelerated.

While recent reports point to continued strength in capital spending plans of business, it remains unlikely that outlays for plant and equipment will maintain their present rate in late 1954. While the stimulus to modernize for purposes of cost reduction will be intense, expenditures for capacity increases have already begun to subside. Temporarily, these offsetting trends have struck a rough balance, but it is probable that the decline in capacity-type expenditures will predominate in late 1954 and early 1955, and that total capital outlays will subside, by mid-1955, at a level noticeably below the present level.

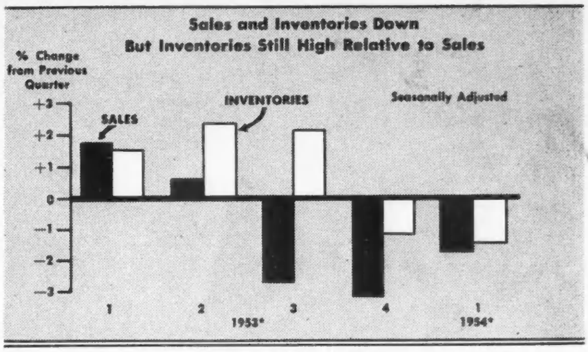
Any important change in the regulations governing depreciation allowances could, of course, make the outlook for capital outlays more favorable. It is also possible that the very easy condition of money markets, and the historically high level of securities prices, may induce a speeding up of long-term expansion schedules of major companies. There is some evidence that this latter favorable factor is already at work. On balance, however, most analysts would agree that in late 1954 and early 1955 these outlays are more likely to be subsiding than expanding.

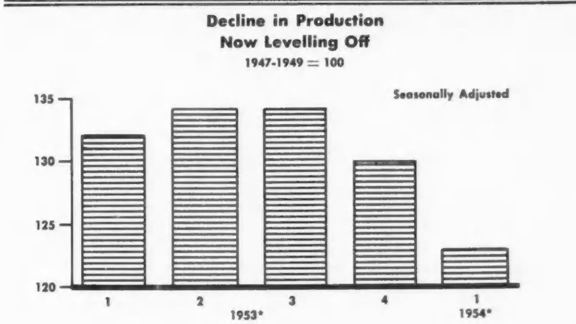
As a final element of contractive forces in the medium term, it should be noted that the moderate decline in various final demands of consumer, government and business envisioned for late 1954 and early 1955 could be somewhat augmented by a renewal of inventory liquidation. The fall in sales rates implied by some decline in defense, in consumer durables demand, and in capital outlays may require further adjustment in stocks to maintain stock-sales ratios at reasonable levels.

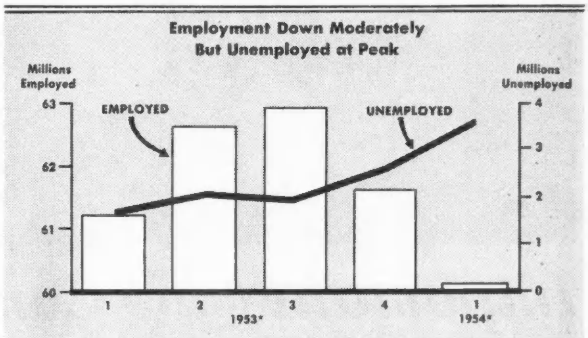
Conclusion

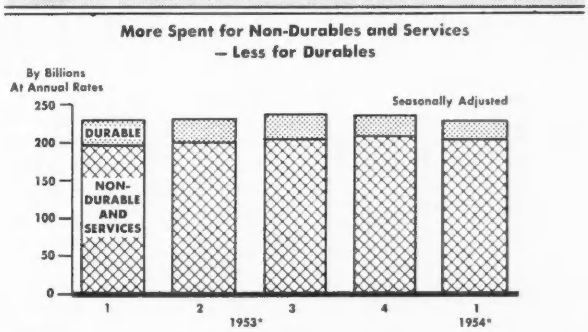
The decline of late 1954-early-1955 envisioned here is conspicuously sharper than any probable rise in the next few months. This argues that the trough of business in early 1955 will be moderately below current levels of activity in most industries—but not necessarily all industries. Among those producers who are now very sharply hit by inventory liquidation—some of the smaller steel companies may serve as examples—the low point of the entire recession may already have been passed. Barring any radical change in domestic price support legislation, the farm sector, too, may have completed a basic adjustment that will stand up to a more serious recession than has yet materialized.

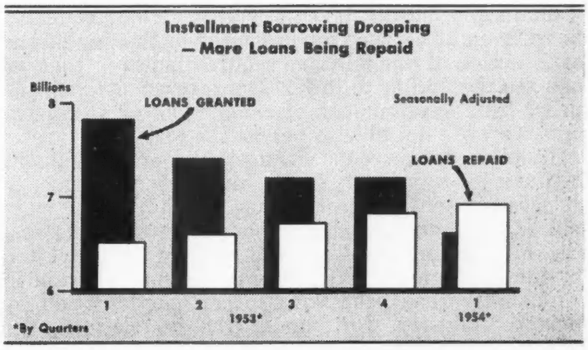
And in any event, it is worth noting that by early 1955, the total U. S. market for goods and services of all kinds will have grown to considerably larger proportions than in mid-1953, when the recession began. The 1953-1955 recession is certainly not likely to be serious enough to interrupt the long-term growth trend of the American economy. Ultimately, it is this continued long-term growth which, by mid-1955, is likely to provide the conditions required for a marked general recovery in business conditions.

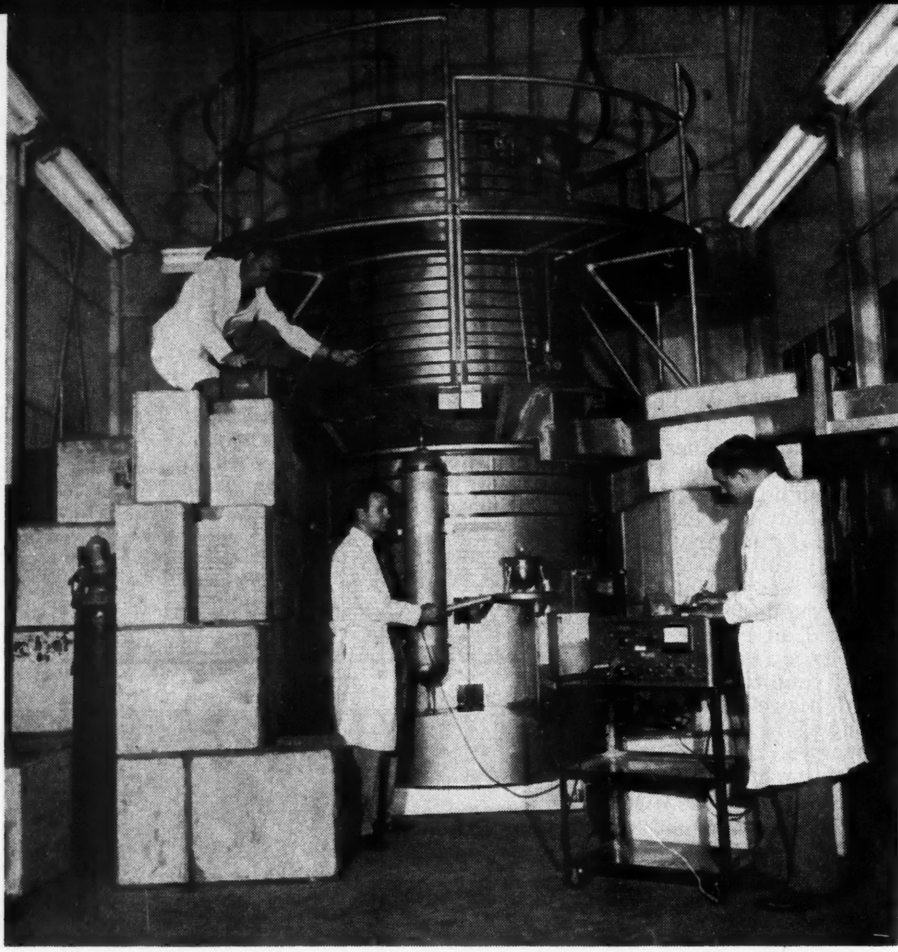












Application of new type of reactor at the Downey plant of North American Aviation. An illustration of the rapid strides now being made by a growing number of companies in the development of atomic power.

By

L. A. LUKENS

Important New Company Developments in Atomic Power

The world has just been startled by news that Bell Telephone Laboratories has constructed the first solar battery which converts the sun's radiation into electricity. Spectacular as this development is, it must be considered of very long-range character. Of far greater current significance is that private industry is now taking a very long leap forward into the realm of atomic power.

The H-bomb tests in the Pacific have been a potent stimulus. Chairman Straus of the Atomic Energy Commission states it this way "(H-bomb tests) have brought us very much nearer to the day of the satisfaction of our military requirements—so that we can see the ability to progress aggressively with the peace-time development of atomic power to an extent we were not able to before the tests."

In plain words, this means that the government can see its way clear, in the not distant future, to release many of the restrictions which hitherto were placed on the use of atomic power by private industry. More than $13 billion has already been invested by the government in the atomic energy program in which there has been wide-spread participation by private industry. But, under the restrictions, the profit aspects of these undertakings have thus far been negligible. In other words, corporations participating in this immense program have been impelled rather by the spirit of patriotism and the need to learn as much as possible about this giant new source of power rather than by the prospect for immediate profits.

If, as Chairman Straus says, the day of private industry use of atomic power is close at hand, corporations will be in a position to gain substantial profits sooner than they had believed possible. This is already commencing to affect the thinking of the directors of many corporations which are actively developing plans to enable their companies to reap practical benefits from any adaptations they may make in regard to specific uses of atomic power.

Two conditions still stand as a substantial obstacle to more widespread activity of private industry in this field but soon may disappear. The first, the extremely rigorous provisions of the Atomic Energy Act, may be sufficiently liberalized to permit greater private industrial participation. There is now pending (HR 8863) a bill whose author is Chairman W. Sterling Cole of the Joint Committee on Atomic

Energy, and which, if enacted into law, would open the field of atomic energy to private industry, under suitable safeguards. Among other things, it would authorize licenses to applicants seeking to use by-product materials for research or development "for medical therapy, industrial uses, agricultural uses, or such other useful applications as may be developed". It is recommended that the President be authorized to cut across cumbersome procedures to speed such participation in circumstances he considers desirable. Furthermore, it is believed that liberalization of the Act would confer patent protection to trail-blazing companies.

The above is cited as the essential step that must be taken before private industry is substantially free to operate in the atomic energy field with any hope of substantial profit to itself. That the above amendment to the Atomic Energy Act has bipartisan support is a favorable augury for passage in which case many important developments are likely to take place rapidly.

The second problem is the question of financing. The construction of plant and equipment for atomic energy uses is extremely costly and few corporations are willing or able to commit themselves financially at this time for this purpose. However, when definite prospects for large profits materialize, the question of finances will take care of itself. The solution to the problem will be facilitated, moreover, when basic changes in the law are affected.

We have seen that the groundwork is being laid for a large-scale expansion of private industry into the field of atomic energy. In the meantime, there have been a number of significant developments related to specific projects of important corporations. Most of these have taken place only within recent months, although their inception may have been a year or more earlier. (*Please turn to page* 248)

Recent Developments Among Companies Active in Atomic Fields

Blockson Chemical Corp.	A producer of phosphate products now extracting uranium from phosphate rock as a by-product for AEC.
duPont deNemours Co.	Will operate $1½ billion Savannah River AEC plant now under construction primarily for hydrogen bomb production.
Duquesne Light Co.	(See text)
General Electric Co.	Has proposed to AEC development of atomic power plant at the Hanford Works which it operates to produce plutonium and electric power. Is also developing reactor for the "Sea Wolf."
Goodyear Tire & Rubber Co.	Recently contracted to build and operate $1 billion gaseous diffusion plant for AEC at Portsmouth, Ohio.
International Minerals & Chemical Co.	Is now producing uranium prosphate as a by-product of phosphate chemicals for the AEC.
Lehigh Coal & Navigation Co.	Expects to shortly begin mining uranium on an exploratory scale.
North American Aviation, Inc.	Designed and built research nuclear reactor for Standard Oil of Calif., subsidiary and now is prepared to build reactors, with AEC approval, for research and power production needs of others.
Republic Steel Corp.	Has entered the atomic energy field in the belief that nuclear physics has vast possibilities for the steel industry.
Union Carbide & Carbon Corp.	Expanding activities in the atomic field by taking over operation of $1 billion gaseous diffusion plant under construction at Paducah, Ky.
Vanadium Corp.	Is negotiating with AEC for a contract providing for enlargement of 35-ton per day pilot uranium plant to 150 tons.
Virginia-Carolina Chemical Co.	A large producer of phosphate rock from which it is understood to be extracting some uranium as a by-product.
Westinghouse Electric Corp.	Will design and build the nuclear reactor for the new Duquesne Light atomic power plant.

Companies Associated with the Dow Chemical-Detroit Edison Atomic Power Development Project:

Allis Chalmers Manufacturing Co.	Gibbs & Cox, Inc.
Atlantic City Electric Co.	The Hartford Electric Light Co.
The Babcock & Wilcox Co.	New England Electric System
Bendix Aviation Corp.	Niagara Mohawk Power Corp.
Cincinnati Gas & Electric Co.	Philadelphia Electric Co.
Cleveland Electric Illuminating Co.	Potomac Electric Power Co.
Consolidated Edison Co. of N. Y.	Public Service Electric & Gas Co.
Consolidated Gas, Electric Light & Power Co. of Baltimore	Rochester Gas & Electric Corp.
Consumers Power Co.	Southern Services, Inc.
The Detroit Edison Co.	The Toledo Edison Co.
The Dow Chemical Co.	United Engineers & Constructors, Inc.
Ford Motor Co.	Vitro Corporation of America
General Public Utilities Corp.	Wisconsin Electric Power Co.

Other Companies Associated in Similar Atomic Power Development Projects:

California-Oregon Power Co.	Monsanto Chemical Co.
Commonwealth Edison Co.	Northern States Power Co.
Diamond Alkali Co.	Oklahoma Gas & Electric Co.
Duquesne Light Co.	Pacific Gas & Electric Co.
Foster Wheeler Corp.	Public Service Co. of No. Illinois
Kidde (Walter) Nuclear Labs.	San Diego Gas & Electric Co.
Louisville Gas & Electric Co.	Union Electric Co. of Missouri

Wisconsin Public Service Corp.

1954 1st QUARTER EARNINGS

What Reports Reveal As to Individual Company Prospects

By WARD GATES

PART II

Practically all the major manufacturing companies have now rendered their first quarter earnings reports. As indicated in the first part of our survey, both earnings and business activity were generally lower than in the corresponding period of 1953. However, there was a very important exception to the lower earnings trend. This refers to the exceptionally good showing made by practically all the major companies in the basic industrial groups, such as steel, petroleum, electrical equipment, automobile, chemical and rubber. The showing compared strikingly with that of the smaller companies in these and other industrial groups, most of which suffered earnings declines varying from moderate to severe.

EPT and Earnings

Analysis of the quarterly earnings reports of the major companies clearly indicates that in a great many cases elimination of the excess profits tax played a determining role in sustaining or increasing earnings. This is frankly acknowledged in the covering statements by officials. The unusual situation affecting large concerns is especially noteworthy since the relatively high level of reported earnings must be viewed against a more or less consistent background of declining sales. General Motors, for example, showed sales down 5% compared with the first quarter of 1953 but net per share was up about 25%. Had the excess profits tax been in effect, net earnings on the same sales would have been reduced considerably, as compared with the $2.13 actually shown. In the first quarter of 1953, for example, EPT for this company was around $1 a share.

Analysis of sales for the quarter indicates that declines took place for about half the companies, with the rest scattered between unchanged or increased sales. About one-third the companies reporting showed sales increases, varying from 2% or 3% to as much as 7% or 8%. Ability by individual companies to raise sales in a period of general business contraction must be viewed as a considerable achievement.

In view of the general stabilty of prices, from raw materials to finished products, sales increases or decreases may be considered as arising from fluctuations in physical volume of goods sold rather than being due to price changes. One may, therefore, now obtain a more reliable picture of the level of actual factory operations for individual companies. It would appear that the total volume of sales is now 8-10% lower than for the corresponding period of last year, which is about in line with the over-all drop in production. This ratio ties in fairly well with the employment situation which reflects a 6% drop, approximately, in the number of employed.

Other factors than EPT played a part in earnings during the first quarter. The most important was related to efficiency in adjusting operating costs to changed sales conditions. In most cases, this was affected through reduction or elimination of overtime pay, strict supervision of buying operations, and reduction or elimination of operations at high-cost plants. In this latter respect, it is obvious that the advantage was with companies which had made the greatest progress in recent years in modernizing old plants and equipment, or in creating new facilties.

The decline in sales generally was largely due to smaller defense production, and its side effects. The aircraft industry, however, continued to benefit from considerably increased shipments. This situation will probably continue until the end of the year. Sales of equipment supplies to the aircraft industry are also being sustained.

Advantage with Major Companies

The steel industry is reviewed elsewhere in this issue but the situation here is somewhat the same as for other major industries, with respect to the fact that, on the whole, (*Please turn to page* 247)

Quarterly Comparison of Sales and Earnings

	1954		1953							
	1st Quarter		4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share	Net Sales (Millions)	Net Per Share
Allis-Chalmers	$ 123.6	$ 1.68	$ 123.3	$ 1.75	$ 132.5	$ 1.50	$ 141.1	$ 1.81	$ 1 7.3	$ 1.55
Aluminum Corp. of America	163.1	.78	163.1	.81	182.9	1.26	191.1	1.35	170.3	1.29
American Cyanamid	98.2	.83	93.0	.71	89.7	.69	94.7	.71	102.8	1.22
Armco Steel	131.3	1.75	143.9	1.49	153.3	1.93	148.3	1.59	43.3	1.49
Armstrong Cork	53.5	1.72	49.3	.86	55.2	1.67	56.3	1.68	56.5	1.64
Babcock & Wilcox	69.9	2.17	103.1	2.53	70.8	1.70	70.6	1.71	67.1	2.29
Bethlehem Steel	445.1	2.73	512.1	4.05	513.5	3.38	555.8	2.81	500.4	3.06
Boeing Airplane	266.4	5.16	260.8	4.15	238.4	2.71	222.3	3.52	196.3	2.14
Caterpillar Tractor	95.2	1.35	91.7	.76	106.0	1.29	117.7	1.42	118.4	1.48
Continental Can	127.9	.81	126.7	.84	185.3	1.56	134.3	1.25	107.9	.67
Corn Products	46.6	1.22	70.5	1.68	50.7	1.20	46.1	1.28	47.7	1.25
Douglas Aircraft	240.8	7.28	242.3	4.37	173.5	2.73	227.1	4.71	231.6	3.66
General Electrric	715.5	1.67	787.1	1.72	780.6	1.42	782.6	1.44	777.8	1.17
General Motors	2,410.0	2.13	2,096.9	1.61	2,490.4	1.57	2,893.6	1.82	2,547.0	1.70
Gillette Co.	36.8	1.59	(N.A.)	1.19	(N.A.)	1.10	34.2	.98	32.4	1.08
Goodrich (B. F.) Co.	152.0	2.04	150.0	2.15	170.2	1.99	179.2	2.09	171.1	1.94
Goodyear Tire & Rubber	273.3	2.60	290.1	2.72	303.9	2.64	312.7	2.51	303.5	2.42
Gulf Oil	(N.A.)	1.55	(N.A.)	2.18	(N.A.)	1.74	395.8	1.70	402.3	1.45
Hercules Powder	43.5	1.21	43.3	.71	46.8	1.04	52.9	1.28	47.0	1.16
Johns-Manville	51.9	.82	63.8	1.20	65.3	1.42	66.1	2.02	57.2	1.56
Jones & Laughlin	127.8	.88	136.0	.89	160.5	1.36	168.9	1.67	158.9	.85
Koppers Co.	46.7	.69	59.6	1.17	65.6	1.05	75.0	1.24	69.1	1.05
Mathieson Chemical	65.5	.83	59.5	.77	60.3	.91	60.1	.80	60.5	.82
National Biscuit	88.7	.66	92.3	.75	90.3	.65	88.8	.65	87.5	.55
Pacific Mills	26.8	.20	30.4	.58	28.7	.68	33.1	.53	28.8	.76
Phillips Petroleum	198.5	1.31	196.6	1.45	195.5	1.45	186.0	1.13	184.2	1.22
Pittsburgh Consol. Coal	39.6	1.04	47.7	3.20	47.9	1.45	45.2	1.39	45.4	1.37
Reynolds Metals	65.6	2.41	70.3	1.45	72.5	3.17	73.4	3.00	71.6	2.75
Scott Paper	44.3	1.06	44.0	.88	39.6	.91	41.0	.94	40.3	.87
Shell Oil	330.2	2.42	336.0	2.35	329.1	2.28	303.3	1.87	300.9	1.86
Standard Oil of New Jersey	(N.A.)	2.41	(N.A.)	2.28	(N.A.)	2.54	998.0	2.23	999.0	2.08
Sylvania Electric Products	66.9	.68	68.8	.37	75.3	.86	69.0	.86	80.0	.92
Texas Co.	(N.A.)	1.85	(N.A.)	2.16	(N.A.)	1.72	401.0	1.58	356.2	1.55
Union Carbide & Carbon	220.9	.74	242.9	.82	254.7	.91	267.4	.93	260.6	.89
U. S. Steel	830.8	1.48	941.0	1.90	999.8	2.12	992.2	1.89	927.9	1.65
Vanadium Corp. of America	8.7	1.30	9.1	1.28	9.9	1.17	12.1	1.49	11.9	1.47
Westinghouse Electric	406.5	1.61	418.5	1.27	383.0	1.08	398.2	1.15	382.2	1.04
Wrigley (Wm. J.) Jr., Co.	19.6	1.46	19.3	.53	21.7	1.25	20.6	1.25	19.0	1.71
Youngstown Sheet & Tube	105.8	.89	125.5	2.34	142.2	2.41	141.0	2.38	140.5	2.08
Zenith Radio	29.3	1.68	41.0	3.12	43.5	2.68	34.3	1.35	47.8	4.28

(N.A.) Not available.

"Home Ownership" For The Government

By "VERITAS"

REALTORS coined the expression "pay like rent" to persuade customers to purchase homes with rent checks going toward eventual ownership, and now the federal government has taken it up. Contractors would erect the structures to government specifications and the payments leading to fee simple proprietorship would extend from 10 to 25 years. Idea is to cushion the cost of catching up with federal space needs, post office buildings included. Democrats are raising a cry against the measure which has passed both houses in slightly different form; they predict new government buildings will rise in all congressional districts in which republican candidates for congress are "in trouble," face possible November defeat.

WASHINGTON SEES:

The status of the coal industry demands immediate study of its future because there are positive signs that the downswing can be expected to continue unless this country is willing to take a more paternalistic attitude than there now seems to be any disposition to take.

John L. Lewis recently emerged from several years of comparative silence. He wants the governmental crutch he despised in the years before petroleum and natural gas were considered serious rivals; wants it in a reverse of existing policy which, he protests, favors domestically produced gas to the point of discrimination against coal, and makes petroleum import a matter of diplomatic tribute to other countries.

Fewer names are on the coal mine payrolls now than at any time since 1900. The past half century has seen fluctuations (many) of the larger ones by John L. Lewis' own choosing) but the employment plunge downward has been sustained since it lost the encouragement of post-war business.

There is an important aspect of national security that must always be kept in focus. Lewis thinks protection lies in a national fuel policy. The petroleum industry will go along with him on the premise, but probably not on the details.

It would be a distortion to present the mine boss and his union membership as the only moving parties toward the goal of a better break for the coal industry. Management has at least an equal stake; it also has a comparable roadblock between its idea and the fruition of that idea. The answer suggested is equalizing legislation touching both taxes and depletion allowances. It's not in sight.

WIRE TAP bill which Attorney General Brownell says is essential if subversives are to be convicted, is having hard going. American distate for eavesdropping however worthwhile the objective, stands in its way. Department of Justice failed to win the house to its way of thinking; the lower chamber wrote provision that testimony procured by tapping wires should be admissible in court proceedings only by permission of a federal judge—in advance of proffer of the testimony. Brownell wants to make those decisions himself. Move to add kidnaping, some other felonies, to the bill's coverage may postpone action and, linked to the differences of opinion on the permissive clause (court vs. Attorney General) could doom the legislation.

FEDERAL COURTS are creatures of the Justice Department but the presiding judges are taking a critical view of Brownell's attempt to decide for them what evidence should be admitted in trial of cases. They are bridling even more at what they consider to be poaching on their domain, by T. Coleman Andrews and his Internal Revenue Service. Andrews has complained to a congressional committee that federal judges are dealing too lightly with income tax law offenders. The judges don't question his right to an opinion; don't like, however, his suggested next step: he believes, he is quoted as saying, Chief Justice Warren should be consulted.

WHATEVER doubt may have existed before, it now is a certainty that rules for committee behavior will be written by congress, not left to the whims of chairmen. One sure result of McCarthy hearings.

As We Go To Press

The Administration has only a matter of weeks within which to bring to fulfillment its promise to reverse the 20-year trend toward nationalization of business and industry -- if the action is to count in favor of the GOP in the November election. Ike's backers were enthusiastic at the start; so much so that they even proposed TVA be sold, converted to private company operation. Defending their program in public forums they didn't fully reject the notion that the Post Office Department might render better service, at lesser costs, if not a government monopoly. But time has been permitted to run against a bill, blocked in senate committee after the house had passed it. Questions are being raised: Will the administration meet the issue of public vs. private power production head on? Will the trend which began with Tennessee Valley Authority be encouraged? Will the issue be ducked?

The power production question grows out of a United States-Canada treaty executed several years ago agreeing to additional water diversions for power production, from the Niagara River. The Dominion went ahead promptly, invested $400 million in plant and facilities on its side, goes into production this month. Power-potential water is flowing by the Niagara Falls, N. Y., bank while congress ponders whether the Federal Power Commission shall license the five New York State private companies to invest a like amount of money to produce and distribute through private financing and pay an estimated $23 million annual taxes; or whether the federal government or the State of New York should make it another taxless project up to the point of distribution lines, sell to private interests for distribution. The House of Representatives launched the trend away from government-in-business by telling FPC to license private operation. The senate committee has dawdled with strange, unexplained, silence from the White House.

There's another major administration measure dying on the legislative vine, but in this instance the congressmen probably will satisfy just about everybody if they render it lip service, probably satisfy nobody if they write a law. It's the National Labor Relations Act (Taft-Hartley) rewrite. Management and labor wanted the statute reopened for revision, foresaw advantages. Now, labor protests the program in its present state would be worse, from its viewpoint, than the law now on the books; management with no prospect of winning the requirement of secret ballot vote among employees IN ADVANCE OF a strike, sees no improvement ahead, would as willingly call it quits as to go on.

President Eisenhower fulfilled his part of the bargain by submitting detailed proposals. They included ideas labor didn't like, and some management didn't like. But there was no pious declaration, no equivocation. The White House hasn't pressed for action. To do so would be to force choices not only between employer and employee ideas, but also between house and senate committee notions. The senate got its debate out of the way before the house committee submitted its report. Belief in the Capital is that this was a delaying tactic rather than a move designed to have a senate-passed measure to shoot at, accept, or rewrite. The union leaders would take the upper house version in preference to the other. But the outlook is that neither will be presented as a sincere recasting of basic rules. There may be a skeleton toning up to make formal changes in noncontroversial provisions.

Getting a late start in this legislative year but assuring the advantage of calendar priority is Commerce Department's bill whose preamble recites that "federal assistance in airport development is desirable at the present time." The Budget Bureau is asked to indorse an application to congress for a new appropriation and a re-draft of existing law. Federally-aided programs would be limited "to projects of exceptional national interest." This is a tie-in of local passenger and freight air needs with the requirements of national defense, gives the measure a double-edged weapon to knife through Capitol Hill red tape and delays.

The house-approved national housing bill is not likely to be reported to the senate for several weeks. It could even die in committee. Reason is the cloud which has blanketed Federal Housing Administration, encompassing operations far beyond the reach of FHA, yet associated with the subject in the public mind. The investigation into loan insurance does not appear likely to turn up great national scandal although venality on rather high levels of government officialdom may come into beam. Basic weakness, it's agreed, was a poorly written bill which permitted borrowers to gain unconscionable profits, yet remain within the letter of the law. The senate committee is so anxious to avoid repeats that it will examine every dotted "i" and crossed "t" before permitting the measure to go to debate. The senate won't accept the house version. That means delaying senate-house conference. Could mean slow death.

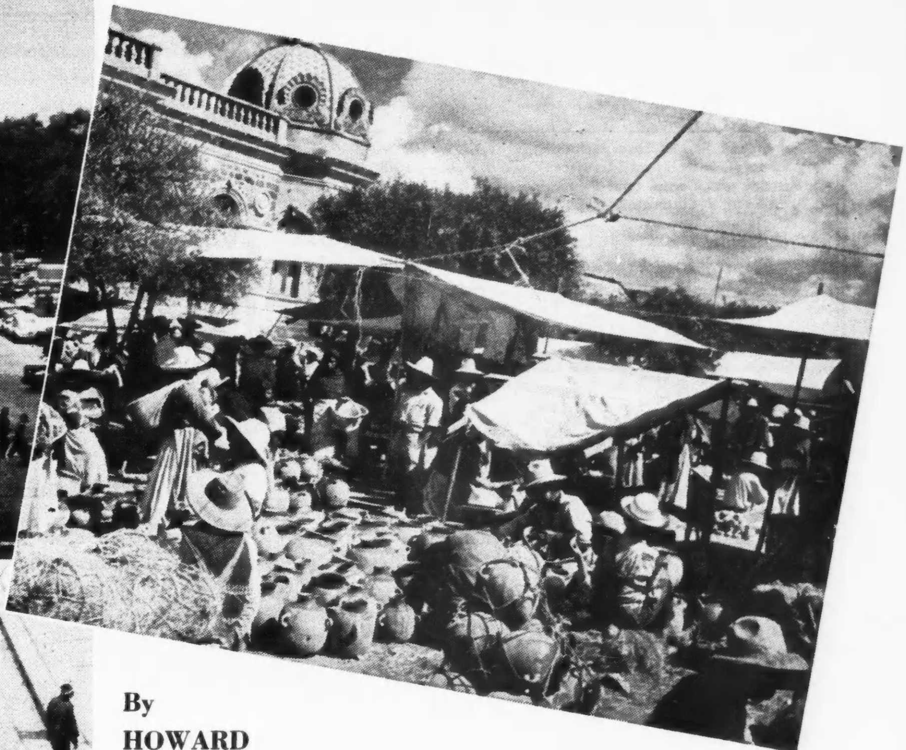
Experts in the field predict a continuing strong demand for vacant industrial land and a strong market for one-story factories and warehouses. This trend is seen in the analysis of current national markets for plants and sites, made by the Society of Industrial Realtors. Comparisons were made against available data for six months ago. Conclusions: prices and dollar volume of sales of industrial land are moving upward; prices for one-story factories and warehouses are stabilized; demand for good industrial land locations is coupled with growing scarcity of prime industrial land; current market trend warrants an optimistic outlook for continued growth of American business.

The senate finance committee has received the novel suggestion that real estate owners with investment property be permitted to qualify for benefits of capital gains after sales -- much the same as do holders of securities and other commodities. Congressional enactments have extended very close to this type of complete coverage, never have quite gotten over the line. The senators haven't dismissed the subject from consideration although it now seems to be headed toward the "for future consideration" files. As is the case in many other drives for legislative relief, failure of the realty investment interests to pinpoint on a few important things at a time, scatters attention of the senators and leads to rejection.

The Randall Commission report on foreign trade is taking the shape of a textbook for future sessions of congress rather than working plan for the current meeting. The Administration will settle for a one-year extension of the reciprocal trade agreement act. The other recommendations are too controversial to survive the test of committee action and floor debate within the time limits set for the life of this congress. Bitterly opposed by United States retailers and their suppliers is a pending measure to permit travelers abroad to bring duty-free into this country, merchandise of the value of $1,000. Present limit is $500. And these opponents say the multiplication of $500 entries at all ports is creating a very serious competitive problem. Suggested change of approach is tariff cut on items of which there is little domestic production (needlework, etc.), distributing here through regular channels rather than rely upon uncertain tourist business to provide "trade instead of aid."

Department of Agriculture export division is figuratively marking time and pacing the floor pending the return of its experts now overseas assaying the foreign markets for agricultural commodities. Exports of farm goods have dropped about $1 billion in the past year. The warehouses are bulging with surpluses. As of March 31, the Commodity Credit Corporation owned almost $3 billion of farm surpluses, all the way from peanuts to cotton. What's ahead can be guessed with better hope of accuracy when the missioners of export business return to these shores. They're surveying the outlook in Europe where two "teams" are at work, and in Asia and South America, one "team" apiece.

Here is a partial status report on the United States as of today: the biggest debt load in history; the largest number of federal payrollers; congressional bills which, if granted, would result in the highest taxes in history (they won't all be granted); an 875-page tax bill which resembles the Manhattan telephone directory, amendments submitted or about to be which would about double the size of the tax bill draft. But if the tax bill (H.R. 8300) is enacted as is, even if burdens shift but don't increase, the taxpayers will save $1.3 billion in fiscal 1955.



By
HOWARD
NICHOLSON

Photos by Gendreau, N. Y.

HOW WILL MEXICAN CURRENCY DEVALUATION AFFECT U.S. TRADE?

A combination of economic pressures caused the Republic of Mexico on April 17 to devalue its monetary unit, the peso, and this action raised some speculation, especially in the United States, as to whether United States trade would be materially affected and also whether other Latin American nations might adopt similar measures. So far as can be determined this soon after the event, there will be no serious dislocation of trade with Mexico. Nor are other Latin American states likely to follow the Mexican example unless important political and economic changes, not now foreseen, should take place.

Prior to the devaluation the going exchange ratio was 8.65 pesos to 1 United States dollar, the new ratio is 12.5 pesos to the dollar. At first glance it would seem that thus to make the dollar so much more costly in terms of pesos would severely restrict sales of American products in Mexico and, indeed, a major reason for the Mexican Treasury action was a desire to curtail imports, not merely from the United States but from all countries for, of course, the devaluation is effective in terms of all foreign currencies and the British pound sterling or the French franc will be more costly in pesos in the same ratio as affects the American dollar.

However, the sharp effect of the devaluation is being or is to be mitigated by developments in Mexico. First, prices in Mexico immediately rose as to most consumers' items and services so that no tremendous bargains can be picked up there by using American dollars. In the meantime, Mexico has increased her export taxes so that Mexican products passing to United States or other foreign markets will be at least partially equalized in the price at which they can come onto the market.

As a further precaution against any too violent disruption, the International Monetary Fund has agreed to allow Mexico to purchase with pesos up to $50 million at any time in the next six months. Moreover, the United States-Mexican Stabilization Fund remains in force and, under this agreement, the United States Treasury stands ready to purchase pesos up to $75 million. These moves would be made to protect Mexico's reserve position but as recently as May 1, no move had been taken to avail of either expedient.

A Special Situation

It had been observed when news of the peso devaluation was announced that this seemed to be contrary to the European trend where there has been for some time a steady climb in the opposite direction; that is, toward revaluation, toward convertibility and, presumably, an ultimate return to gold redemption. Examination of the comparative

Mexico — Functional Classification of Public Expenditures for 1954

	Absolute (Millions of Pesos)	% of Total
Communication and Transportation	1,221.3	25.3
Agricultural, Forestry and Livestock Development	653.5	13.5
Industrial and Commercial Promotion	345.0	7.1
Education and Cultural Services	583.1	12.0
Hospitals and Other Aid	234.5	4.9
Social Security	177.6	3.6
Military	583.3	12.1
General Administration	377.7	8.0
Public Debt	651.7	13.5
TOTAL	4,827.7	100.0

	U. S. — MEXICO (Millions of Dollars) Exports	Imports
1952 — 1st quarter	$178	$117
2nd quarter	182	102
3rd quarter	148	78
4th quarter	158	114
1953 — 1st quarter	153	124
2nd quarter	154	96
3rd quarter	155	68
4th quarter (October)	65	20
(November)	54	21
(December)	63	27

backgrounds suggests that it is scarcely practicable to make any comparison. Indeed, the whole picture in the Western Hemisphere south of Canada and the United States is in a different focus.

However, in so many ways the situation of Mexico is peculiar to that country that there is no expectation of similar Latin American currency actions. It is true that several of these states have already devalued, notably Chile where there has been more than one descent. But each nation seems to have unique problems. For example, Brazil is striving to repay indebtedness in the United States and assuredly is not going to fix a value on its unit which will make it more costly to meet dollar obligations.

A point of special interest as to Mexico is that it is a country which has been singularly free of controls affecting trade. Some advocates of artificial controls have suggested that had controls been in operation, perhaps Mexico would not have drifted into a position of too heavy imports and been faced with the necessity of taking such steps as devaluation to adjust the balance. As many if not more observers do not subscribe to this view and insist that had the country been entangled in a maze of controls it would have reached an economic impasse sooner.

It is true that there has been some recent flight of capital from Mexico and some lessening of reserve holdings and it is true that imports for consumption appeared to be getting progressively out of balance. Certainly, as in the United States and not a few other countries, the evil of inflation has resulted in rising prices. In recent years there has been an accelerated movement to the cities—so much so that this country which so short time ago historically was an agricultural and pastoral land, now shows some 43 per cent of its total population dwelling in cities.

This urban movement, of course, has gone hand in hand with the advance of industrialization. Mexico, in contrast to the United States or Canada, until quite recently never had what is known in this country as a middle class economically. A small minority of Mexicans are very wealthy but the great mass of the people have lived at a bare subsistence level or little above it. With the industrialization and urbanization, a change has been taking place. It has meant that money wages have been available to large numbers. How striking this change has been is illustrated by the figures showing that in 1941 the per capita income was but 368 pesos. In 1951 this had risen to 1,582 pesos. To be sure, some allowance must be made for inflation but rising wages and inflationary tendencies, of course, interacted. By any criterion, the increase in per capita income was striking.

Demand for Imports

Inevitably this meant an ever-growing demand for imported goods. Thousands upon thousands of Mexicans, for the first time in their lives, were able to make effectual demand for goods not made in Mexico, goods of at least a semi-luxury nature by United States standards, complete luxury by Mexican standards.

At the same time these changes were going on, Mexico's manufacturing industry was growing by immense strides. The value of manufactures in 1940 was only 2,008,800,000 pesos. Ten years later that value had reached 16,794,000,000. On these figures an adjustment must be made because in 1940 the peso stood at a comparative value of 20 cents in United States money while in 1950 it was worth but 11½ cents. Nevertheless a fourfold increase in the value of manufactures in ten years is a remarkable gain.

Reports from Mexico have shown that the devaluation action was immediately followed by increases of from 30 to 40 per cent in consumers goods, notably food items. While the Government's policy is to refrain from controls, nevertheless it can take a variety of actions under municipal regulations, drawn for specific and immediate purposes and did so. For example, trucks loaded with basic food products such as corn and beans, patrolled the streets selling at prices below those being charged at the usual grocery stores and market stalls.

Also, a number of shops were closed by Government order on the ground that shopkeepers were profiteering or taking an unwarranted advantage of an emergency situation. In Mexico, broad powers are vested in officials to meet emergency situations and it is apparent that every effort is being made to prevent a difficult situation from developing.

There are political undercurrents which have served to complicate matters in the present emergency. Communists are numerous in Mexico and also very articulate and active. They were only too eager to attack the devaluation of the peso on the ground that it was a "capitalist" plot further to grind down the faces of the poor. Manipulation by the United States was blamed by Communist agitators and, of course, much attention was paid to the flight of capital, bitter charges being made that rich persons were exporting or had exported their money at more favorable rates while leaving poor Mexicans in a position where they would have to

pay more for subsistence.

It is confidently expected that these immediate disturbances to the economy will be relatively short-lived and that the people soon will adjust themselves to the new scale. Meantime, the Government plans to carry out various plans for the economic development of the country. It is especially hoped that American business firms will increase their investments and activities in Mexico. One measure will be to adopt a system of accelerated amortization on new plant and equipment, after the pattern which for a period was followed in the United States. Then, too, the Mexican Government is embarking upon a public works program calling for the expenditure of some 3.3 billion pesos.

Government loans will be made to assist new business and the investment of more foreign capital will be encouraged. The export tax will be progressively reduced as the internal situation improves and in all these measures, great care will be observed to prevent any further inflationary tendencies.

Higher Wages in Sight

It is recognized that wage increases almost certainly will have to be granted to meet the increase in living costs. Labor in Mexico occupies a strong political position. Unionism has been growing steadily over a considerable period of years and, of course, has been an inevitable concommitant to urbanization and industrialization. The Federal Constitution established a Labor Code which provides for wage adjustment. General wage levels are fixed by Government boards every two years but also it is possible to arrive at agreements by collective bargaining. With a fresh cost-of-living pressure arising from the devaluation of the peso and with Communist agitation to keep under control, it is a foregone conclusion that there will be an early wage adjustment which should have the effect of quieting most of the working force.

Mexican-United States trade has long been of importance. While not the rich market that Canada, the northern neighbor is, nevertheless Mexico has been a substantial customer and, although expert observers doubt that very material changes will take place because of the recent development, still effects on the more important trade items inevitably will be watched.

There are situations in the trade which might appear on the surface to be anomalous. For example, Mexico is one of the great petroleum producing nations of the world. Yet so few are the refining facilities that one of the large items of United States exports to Mexico is petroleum products. In 1953 sales to Mexico amounted to $35 million.

In general, exports to Mexico fall into industrial categories. For 1953, the largest item covers industrial machinery—engines, turbines, parts and so on. In that year exports reached a value of $95 million. Other closely allied categories to be added are metal manufactures, especially tools and hardware in great variety. For 1953 this item reached $11 million. Electrical machinery alone for 1953 was valued at $30.3 million.

The Mexican Government largely monopolizes the production of petroleum but it must buy such things as well-drilling equipment and in 1953 United States exports amounted to $2.5 million. The Mexican railways are nationalized but here, again, equipment must come from outside the country and in 1953 the United States exported $10.8 million in railway equipment, cars, supplies and the like to Mexico. Various chemicals to the value of $14 million were sold to Mexico in 1953.

The automobile industry in Mexico is an interesting one. Mexico does not produce a car but does have assembly plants, employing Mexican labor. Some automobiles are exported complete to Mexico, especially high value cars purchased by members of the wealthy class. For the category of automobiles, accessories and parts, the figure for 1953 is $84 million. Trucks and buses take a different listing and it is shown that their value was $31.5 million in 1953.

To what extent these exports will be affected because more pesos will have to be paid still is regarded as problematical. On the cars assembled in Mexico from parts shipped from the United States there will be the same effect as upon completed cars. It is possible that the Mexican Government may make some concession in the case of parts for assembly in Mexico because the work gives employment to Mexican labor and, of course, inevitably means expenditure of substantial sums of American money there. But it will be the policy to assist industrialization with an ultimate hope of increasing the number of native manufactured products.

Position of Mexican Exports to U.S.

Mexico exports to the (*Please turn to page* 254)

Basic Data of the Mexican Economy

Year	Population (Millions)	Population Relative	National Income Nominal (Million Pesos)	National Income Real (Million Pesos)	Index of Physical Industrial Production	Index of Value of Manufacturing	Index of Employment in Manufacturing	Index of R.R. Freight
1939	19.4	100.0	5,670	5,670	100.0	100.0	100.0	100.0
1940	19.7	101.5	6,130	5,980	102.9	109.5	103.5	104.7
1941	20.2	104.1	7.450	6,816	112.0	125.6	106.9	100.6
1942	20.6	106.1	9.170	7,604	124.6	153.9	113.4	99.0
1943	21.1	108.7	11,810	8,105	125.9	192.9	115.9	109.1
1944	21.6	111.3	15,370	8,611	132.2	216.7	120.0	119.7
1945	22.2	114.4	17,870	8,993	138.9	250.7	124.7	119.0
1946	22.7	117.0	22,530	9,851	139.7	312.3	122.7	117.4
1947	23.4	120.6	25,170	10,388	136.7	333.5	122.7	123.9
1948	24.0	123.7	27,500	10,577	143.4	371.8	124.9	120.0
1949	24.6	126.8	30,480	10,702	152.1	405.4	124.9	131.4
1950	25.6	131.9	35,300	11,343	174.1	501.7	126.9	132.6
1951	26.3	135.5	42,000	10,881	195.0	628.6	129.6	127.2
1952	27.3	140.7	47,000	11,750	192.0	638.6	126.1	136.2

10 ★ ★ ★ Potential MARKET LEADERS for 1954

By THE MAGAZINE OF WALL STREET STAFF

(*Editor's Note*: *We present herewith the remaining six of our ten selections of Potential Market Leaders for* 1954. *The first four selections appeared in the May first issue.*)

Our special feature "Potential Market Leaders" has appeared annually for many years and is much sought after by investors, not only because it selects the stocks which seem to offer better-than-average promise for market performances but also because it offers investors an opportunity to obtain a satisfactory vehicle for income return. This is worth-while in a market in which so many stocks of good quality now yield comparatively small returns. Since most investors seek a reasonably good return, as well as appreciation, we feel sure that we are justified in stressing this feature of the "10 potential market leaders."

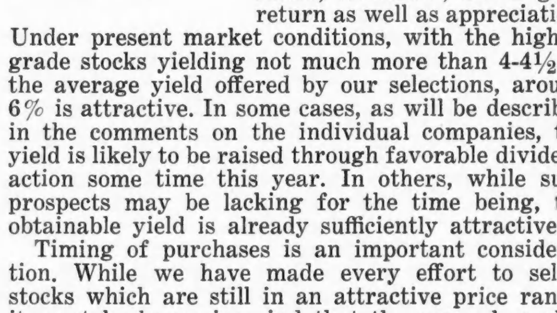
At first glance, it would no doubt occur to our readers that we must have had an abundant list of suitable stocks from which to choose for our selections. Nothing could be further from the truth as evidenced by the high market levels to which many well-known issues have advanced in recent months. However, by carefully sifting the possibilities among that rather small number of remaining stocks which are still available at attractive prices, we have finally chosen the ten which have been presented in this and the last issue of the Magazine.

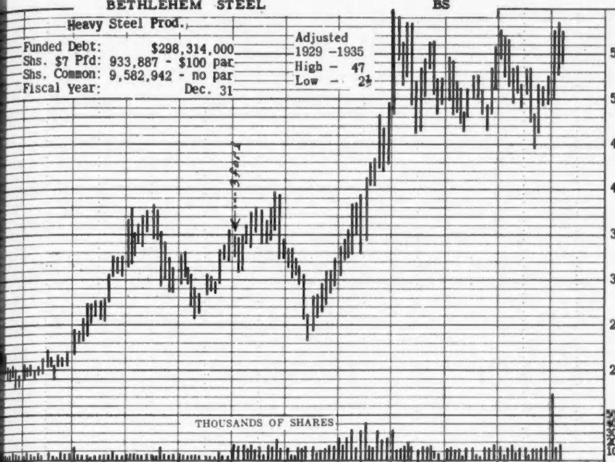
As has been our policy for many years, recommendations have been based on all available data and information such as: earnings record in recent years; competitive position; financial position, dividend record and prospective margin of earnings over dividends. Due attention also has been paid to technical considerations, such as the daily volume of transactions and type of action in days of general market strength or weakness.

It has been particularly important to give heed to the possible effects of the current business transition on the specific companies. Therefore, it was essential, in order to achieve the best results, to select companies in an exceptional position to withstand the current downturn in business, either as a result of new and specific developments related to important new operations; or, as a result of prospects for an unusually high volume of defense orders, in addition to normal civilian demand; or, because of the benefits accruing from the ending of the excess profits tax. In some cases, among the stocks chosen, all three factors mentioned appear. Obviously, the presence of these factors offers added assurance of fundamental support so far as future earnings are concerned.

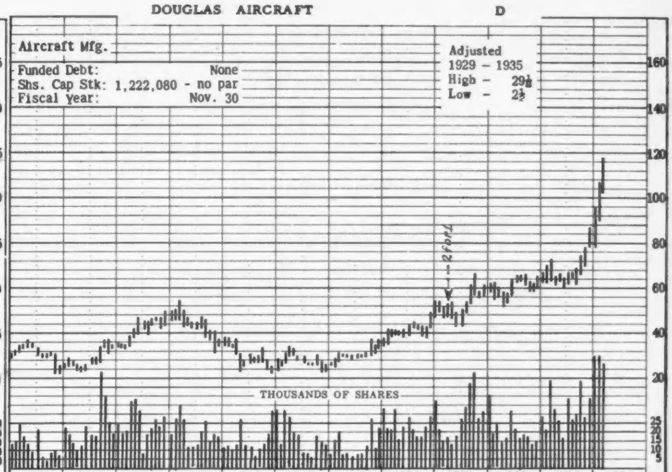
The stocks have been selected, as stated, for a good return as well as appreciation. Under present market conditions, with the highest grade stocks yielding not much more than 4-4½%, the average yield offered by our selections, around 6% is attractive. In some cases, as will be described in the comments on the individual companies, the yield is likely to be raised through favorable dividend action some time this year. In others, while such prospects may be lacking for the time being, the obtainable yield is already sufficiently attractive.

Timing of purchases is an important consideration. While we have made every effort to select stocks which are still in an attractive price range, it must be borne in mind that the general market has reached rather high levels and that normal setbacks may be expected from time to time. For this reason, it would be wise for intending investors to confine any purchases to quite moderate amounts, maintaining adequate reserves for future investment when a suitable market opportunity presents itself. In the meantime, we suggest that readers closely follow the market comments of Mr. A. T. Miller which appear regularly in each issue. This will aid readers in determining the best time to make investments as well as to realize profits.





	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954
EARN.	.86	3.31	3.17	3.93	4.68	9.36	9.68	12.15	10.43	8.80	12.30	
DIV.	.00	2.00	2.00	2.00	2.00	2.40	2.40	4.10	4.00	4.00	4.00	
Wkg Cap $ Mil	.5	289.6	339.3	331.8	290.1	280.6	382.4	401.1	464.3	499.6	401.6	



	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954
EARN.	4.96	6.41	7.47	1.82	a 1.79	4.86	4.60	6.01	5.76	8.97	15.46	
DIV.	2.50	2.50	2.50	3.75	1.25	2.50	4.62½	3.12½	3.50	3.75	6.50	
Wkg Cap $ Mil	35.4	49.6	64.2	58.4	55.5	58.6	57.7	58.2	49.4	49.2	56.5	

BETHLEHEM STEEL CORPORATION

BUSINESS: Ranks as the second largest company in the steel industry. It is a fully integrated organization, operating its own sources of raw materials, strategically located steel mills, fabricating and manufacturing units, producing a complete line of steel products. It is also the world's largest shipbuilding enterprise.

OUTLOOK: The year 1953 was the greatest in Bethlehem's half-century history. Total revenues of $2,049 million, an all-time peak, surpassed 1952 volume by $358 million, and more than doubled 1947 revenues of $1,034 million. Net income last year was up by $43 million from 1952, increasing to a record high of $133.9 million. This was equal to $13.30 a share on the outstanding common stock after taxes, including $1.72 a share for EPT. Of particular significance is Bethlehem's ability to increase its percentage of net income per dollar of total revenues from 5.3% in 1951, to 5.9% in 1952, and again to 6.4% in 1953. This has been accomplished notwithstanding higher operating costs, greater taxes, and an increase in amortization of emergency facilities from $17 million in 1952 to $35 million last year, with all of the latter sum being provided out of 1953 operating income. Accounting in part for these gains have been increased steel capacity to 17.6 million tons in 1953—800,000 tons more capacity than in 1952—and greater operating efficiencies through additions, improvements and acquisitions over the last 7 years at a net cost of $690.4 million. Continuing the expansion program brought new facilities into use expanding capacity of ingots and castings to 15.5 million tons at the beginning of 1954. The company began the current year with strong finances. Its cash and marketable securities totaled $511.4 million with net working capital totaling $401.6 million. Currently, Bethlehem common is selling at less than 4.7 times last year's per share net. We believe the issue is entitled to sell on a much higher ratio than this and substantial capital gains should accrue on purchases around present price level over the long-term.

DIVIDENDS: Has paid dividends in each of the last 16 years. Paid $3.25 for the first half of 1954, including current quarterly payment of $1.25 a share.

MARKET ACTION: This stock has been displaying considerable market strength, moving up to recent high of 66⅛, from low of 50 earlier in the year. At current price of 65 the yield, based on $5 annual dividend, is 7.6%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$296,344	$511,411	+$215,067
Receivables, Net	158,129	173,939	+ 15,810
Inventories	135,181	293,622	+ 158,441
TOTAL CURRENT ASSETS	589,654	978,972	+ 389,318
Net Property	383,189	746,348	+ 363,159
Investments	28,296	56,524	+ 28,228
Other Assets	30,775	1,112	— 29,663
TOTAL ASSETS	$1,031,914	$1,782,956	+$751,042
LIABILITIES			
Notes & Debt Payable	$ 23,000	$204,000	+$181,000
Accounts Payable	60,730	90,217	+ 29,487
Accruals	70,234	86,579	+ 16,345
Accrued Taxes	146,104	196,523	+ 50,419
TOTAL CURRENT LIABILITIES	300,068	577,319	+ 277,251
Reserves	58,815	42,000	— 16,815
Long Term Debt	162,724	154,914	— 7,810
Preferred Stock	93,389	93,389	
Common Stock	283,574	303,460	+ 19,886
Surplus	133,344	611,874	+ 478,530
TOTAL LIABILITIES	$1.031,914	$1,782,956	+$751,042
WORKING CAPITAL	$289,586	$401,653	+$112,067
CURRENT RATIO	1.9	1.7	— .2

DOUGLAS AIRCRAFT COMPANY

BUSINESS: This company, for years one of the leading aircraft builders, is heavily engaged in the production of various types of planes for the Armed Services; is producing guided missiles, and is the leading manufacturer of civilian cargo and passenger planes, including the latest design, the DC-7, as well as the DC-6 in use by various commercial airlines throughout the world.

OUTLOOK: Marketwise, Douglas Aircraft for the last several months has been one of the most active and strongest issues, moving up from a low this year of 79 to a recent high of 133½. Helping to spark the advance was the announcement in February of the company's intention to split the shares on a two-for-1 basis, and establishing a quarterly dividend rate of 62½ cents for the 2,403,494 new shares, the first payment to be made, along with an extra of 87½ cents, on May 26 to holders of record May 5. The greater impetus to Douglas' market strength, however, is the company's 1954 earnings outlook which, from first quarter results, indicate net of close to $15 a share on the new stock. For the three months to Feb. 28, last, net amounting to $8.9 million equaled $3.14 a share (adjusted for the stock split) about double the $4.3 million, or $1.83 a share, reported for the first quarter of the previous fiscal year in which, for the 12 months, adjusted earnings amounted to $7.23 a share. Sales and other income for the first quarter of the current year totaling $240.9 million increased by a little more than $9 million over the same period of a year earlier but earnings rose to 3.69% of sales as compared with 1.9% last year, indicating increased operating efficiency and reflecting saving of excess profits tax that expired with the end of 1953. Douglas entered the month of April this year with a backlog of $2,023 million, including approximately $160 million of firm commercial business, assuring capacity operations through this year and next with earnings holding at a rate that gives the shares strong market potentials over the longer-term.

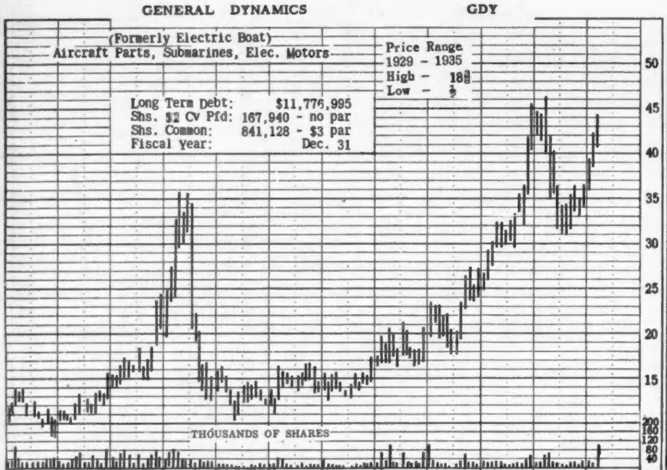
DIVIDENDS: Indicated regular annual rate of payments on the new stock is $2.50 a share annually, which is likely to be augmented by extras from time to time.

MARKET ACTION: From its recent high of 133½, the old stock has reacted to present price of 126, or 63 for the new stock. Purchase should be deferred until the present speculative activity has ebbed.

COMPARATIVE BALANCE SHEET ITEMS

	November 30 1944	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 31,701	$ 55,688	+$ 23,987
Receivables, Net	6,483	26,421	+ 19,938
Cost-Plus Contracts, etc.	79,114	71,002	— 8,112
Inventories	5,719	78,344	+ 72,625
TOTAL CURRENT ASSETS	123,017	231,455	+ 108,438
Net Property	6,955	32,344	+ 25,389
Investments	446	....	— 446
Other Assets	10,365	9,716	— 649
TOTAL ASSETS	$140,783	$273,515	+$132,732
LIABILITIES			
Notes Payable	....	$ 35,000	+$ 35,000
Accounts Payable	$ 43,778	45,081	+ 1,303
Accruals	16,551	51,930	+ 35,379
Tax Reserve	13,015	42,901	+ 29,886
TOTAL CURRENT LIABILITIES	73,344	174,912	+ 101,568
Reserves	17,290	....	— 17,290
Capital Stock	6,000	30,063	+ 24,063
Surplus	44,149	68,540	+ 24,391
TOTAL LIABILITIES	$140,783	$273,515	+$132,732
WORKING CAPITAL	$ 49,673	$ 56,543	+$ 6,870
CURRENT RATIO	1.7	1.3	— .4

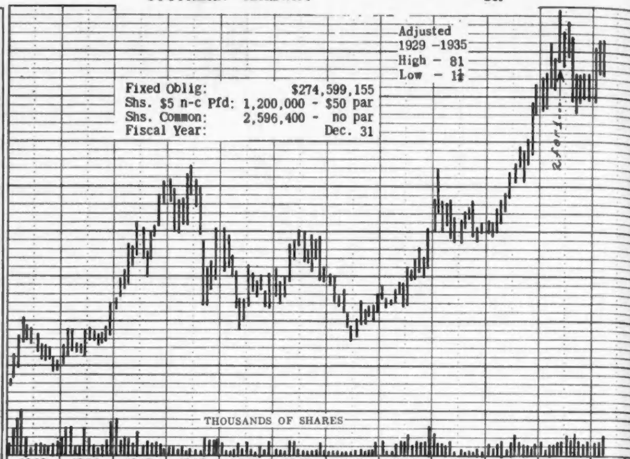
GENERAL DYNAMICS — GDY



	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954
EARN.	2.46	2.75	3.11	1.98	.87	2.49	.13	1.52	4.53	5.72	E7.01	
DIV.	1.25	1.50	1.50	•1.25	1.00	1.50	1.50	1.25	2.00	2.25	2.25	
Wkg Cap $ Mil	15.1	15.3	16.8	16.9	16.8	17.0	16.3	15.0	26.9	22.1	24.4	

•Plus Pfd. Stk.

SOUTHERN RAILWAY — SR



	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954
EARN.	7.91	7.42	5.12	2.41	3.43	6.26	3.44	7.47	6.11	9.57	11.63	
DIV.	1.00	1.37½	1.60	1.50	1.50	1.62½	2.50	1.50	2.00	2.00	2.50	
Wkg Cap $ Mil	30.2	41.8	49.1	44.9	36.6	38.1	25.1	19.9	24.4	41.6	58.9	

GENERAL DYNAMICS CORPORATION

BUSINESS: The company's Electric Boat Division is the world's leading builder of submarines; its Electro Dynamics Division is a manufacturer of industrial and marine motors, and its 97% owned Canadair, Ltd., is Canada's largest aircraft manufacturer. Consolidated Vultee Aircraft Corp., in which General Dynamics has held a 17% stock interest is now to be absorbed through merger that should result in stepping up operations in the fields of aerodynamics, hydrodynamics and nuclear dynamics.

OUTLOOK: The year 1953 was one of outstanding achievements for General Dynamics, in organizational growth, engineering, net sales and net earnings. The two latter items were at all-time high levels, net sales totaling $206.6 million which were $72 million greater than in 1952, and more than five times 1950 volume. Net income of $6.2 million exceeded the 1952 showing by $1.3 million, and was equal to $7.01 a share for the common stock, compared with $5.72 a share in the previous year and $1.52 a share in 1950. Over the same years—1950 to the end of 1953—current assets have grown from $21.4 million to $48.5 million, and net worth has increased from $19.8 million to $31.1 million. As of about mid-March, 1954, unfilled orders on the books amounted to approximately $280 million, a gain of about $110 million over the backlog at the close of 1953. Had the merger with Consolidated Vultee been in effect last year the backlog would be approximately $1,250 million, and net income, including non-recurring items would have been equal to $7.85 a share on the 1,972,158 shares of stock to be outstanding on completion of the merger, with indications that such earnings might be expected to continue for a number of years. This could prove a conservative estimate considering General Dynamics' position in its own fields, the strong status of Canadair, Ltd., and Consolidated Vultee's operations that include both military and civilian plane production as well as its research and development programs in atomics, electronic and other fields.

DIVIDENDS: Payments on the common stock have been made without interruption for 18 years. Current quarterly distribution of 87½ cents a share represents an increase from $3 annual rate maintained through 1953 and first 1954 quarter.

MARKET ACTION: Recent price of 45, compares with a 1953-54 price range of High—45⅞, Low—31. At current price the yield is 7.7%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 10,898	$ 14,664	+$ 3,766
Receivables, Net	9,383	13,580	+ 4,197
Inventories	6,323	20,267	+ 13,944
TOTAL CURRENT ASSETS	26,604	48,511	+ 21,907
Net Property	2,315	7,110	+ 4,795
Investments	013	9,525	+ 9,512
Other Assets	2,930	1,238	— 1,692
TOTAL ASSETS	$ 31,862	$ 66,384	+$ 34,522
LIABILITIES			
Notes & Accounts Payable	$ 1,072	$ 13,341	+$ 12,269
Accruals	1,698	5,545	+ 3,847
Tax Reserve	8,446	5,018	— 3,428
Mtge. Install. Due	....	171	+ 171
TOTAL CURRENT LIABILITIES	11,216	24,075	+ 12,859
Reserves	5,136	....	— 5,136
Other Liabilities	1,326	394	— 932
Notes & Mtge. Payable	....	10,731	+ 10,731
Preferred Stock	....	7,874	+ 7,874
Common Stock	2,155	2,523	+ 368
Surplus	12,029	20,787	+ 8,758
TOTAL LIABILITIES	$ 31,862	$ 66,384	+$ 34,522
WORKING CAPITAL	$ 15,388	$ 24,436	+$ 9,048
CURRENT RATIO	2.3	2.0	— .3

SOUTHERN RAILWAY COMPANY

AREA SERVED: The Southern Railway System, comprising 7,565 miles, serves the entire southeastern section of the U. S., including every state except West Va., south of the Ohio and east of the Mississippi rivers. From Mobile and New Orleans on the Gulf and Jacksonville on the Atlantic coasts the lines run west to St. Louis and north to Cincinnati, Ohio and Washington, D. C.

OUTLOOK: Few rail issues have grown in investment stature to the extent achieved by Southern Railway common in the past decade. The greatest contributing factor to this material and sustained improvement has been the extremely rapid expansion of industrial activity in the road's territory, creating a relatively consistent year to year increase in revenues and greater underlying stability because of the broader diversification in freight traffic that this industrial expansion has made possible. In the last 8 years, Southern's total revenues have increased from $212 million in 1946 to a 1953 record high of $275.2 million, freight revenues over this period increasing from $164.1 million to $236.5 million, a gain of 44.1%. Simultaneously with this growth has been the continued strengthening of the road's earning power through benefits derived from Dieselization of the entire System and other operating improvements, including mechanization of roadway maintenance and development of "push button" classification yards, substantial contributors to cutting operating expenses, enabling the road to show 1953 net earnings of $33.1 million, or $11.62 a share for the common stock. This compares with 1952 net of $27.8 million, equal to $9.57 a share, adjusted to the 1953 2-for-1 stock split. On the basis of traffic volume in the first two months of this year 1954 net, is likely to show a decline from the previous year's high level, but even so, earnings of $7 a share appears to be a conservative estimate. The company has strong finances with cash and its equivalent as of Jan. 31, last, amounting to $110 million and net current assets of $53.4 million.

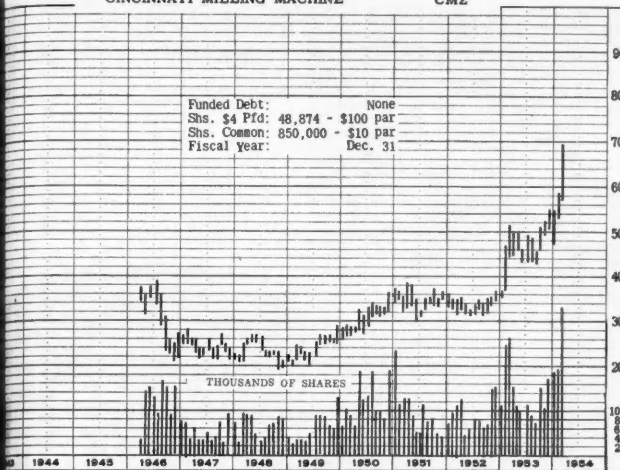
DIVIDENDS: Payments on the common stock have been made regularly since 1943. Since the split-up, the quarterly rate has been maintained at 62½ cents with initial 1954 quarterly payment being accompanied by $1 a share extra.

MARKET ACTION: Recent price of 50, compares with a 1954-54 price range of High — 53, Low — 38. At current price the yield is 5.0% on regular dividend rate.

COMPARATIVE BALANCE SHEET ITEMS

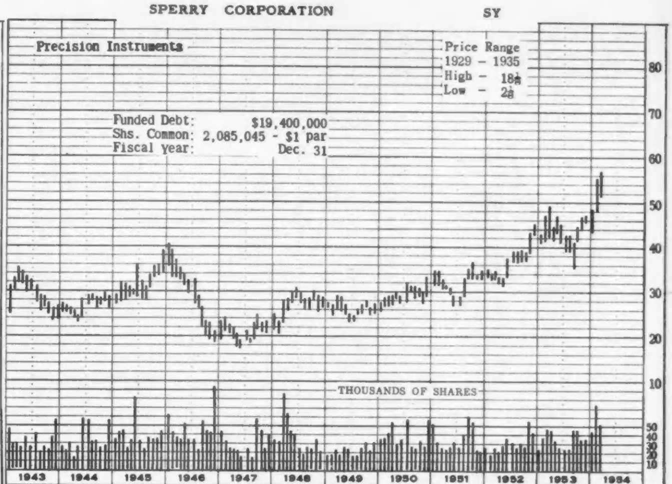
	December 31 1945	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 90,330	$101,659	+$ 11,329
Receivables, Net	19,409	20,574	+ 1,165
Materials & Supplies	13,689	16,524	+ 2,835
TOTAL CURRENT ASSETS	123,428	138,757	+ 15,329
Road & Equipment	570,250	688,200	+ 117,950
Investments	55,983	82,159	+ 26,176
Accrued Deprec. & Amort.	(cr)90,577	(cr)103,068	+ 12,491
Capital & Other Funds	435	5,645	+ 5,210
Other Assets	9,302	5,114	— 4,188
TOTAL ASSETS	$668,821	$816,807	+$147,986
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 74,256	$ 79,776	+$ 5,520
Other Liabilities	4,150	8,320	+ 4,170
Unadjusted Credits	17,252	11,086	— 6,166
Long Term Debt	221,358	273,778	+ 52,420
Preferred Stock	60,000	60,000	....
Common Stock	129,820	129,820	....
Surplus	161,985	254,027	+ 92,042
TOTAL LIABILITIES	$668,821	$816,807	+$147,986
WORKING CAPITAL	$ 49,172	$ 58,981	+$ 9,809
CURRENT RATIO	1.7	1.7	....

CINCINNATI MILLING MACHINE CMZ



	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954
EARN.			2.32	1.63	2.70	2.65	2.70	4.74	11.13	12.76	
DIV.			1.40	1.40	1.40	1.75	1.75	2.05	3.00	4.00	
Wkg Cap $ Mil.			31.0	30.8	30.4	29.5	28.6	26.5	33.6	40.2	

SPERRY CORPORATION SY



	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954
EARN.	3.65	4.05	3.45	3.65	2.79	4.32	2.62	4.72	5.36	6.75	7.57	
DIV.	1.60	2.00	2.00	1.60	1.60	2.00	2.00	2.00	2.00	2.00	3.00	
Wkg Cap $ Mil.	22.7	31.1	45.7	37.0	31.7	37.2	57.5	54.6	53.6	55.8	62.2	

THE CINCINNATI MILLING MACHINE CO.

BUSINESS: Company ranks as the major producer in the machine tool field. Its products include milling, grinding and broaching machines, profilers and die-sinkers, metal forming machines and other types of equipment used by the automoive, aircraft, electric appliance, farm machinery, shipbuilding, and many other industries.

OUTLOOK: Cincinnati Milling Machine, established in 1884 and one of the oldest machine tool builders, is in excellent position to benefit from normal replacement demand for its wide range of machine tools as well as from the accelerated progress by various industries toward plant automation as a result of intensified competition and technological advancements. The company, girding for the future, wiped out $10 million in bank loans last year, completed major improvements at two of its plants and expects to have all important plant additions completed by mid-1954. Simultaneously, it is continuing the development of new machine tools and expanding research and development in cutting fluids, ceramics and chemicals. It opened the current year with a backlog of unfilled orders totaling $83.5 million. Last year, the company's sales of $150.5 million, which was 13% of the entire machine tool industry's shipments, were at a new record high for the fifth consecutive year, increasing from $33.2 million for 1949. Notwithstanding the fact that excess profits tax took $8.58 a share of common stock out of earnings in 1953, net was equal to $12.76 a share, as compared with $11.13 a share in 1952 when the excess profits tax amounted to $7.31 a share. Inasmuch as this tax will not apply in 1954, earnings should continue to hold at a high level. Aiding the current year's showing will be the absence of a $4,470,000 amortization charge made in 1953 under Certificates of Necessity and the non-repetition of extraordinary expenses incurred last year by extended overtime schedules and large scale sub-contracting because of the need to push production far above normal capacity.

DIVIDENDS: Payments have progressively increased in each year since 1948 to an annual rate of $3 a share in 1952 and 1953, plus $1 a share extra in the latter year.

MARKET ACTION: Recent price of 75, compares with a 1953-54 price range of High—72¼, Low—35⅝. At current price the yield is 5.3% based on $4 annual dividend.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1945	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 20,183	$ 17,165	—$ 3,018
Receivables	4,303	16,281	+ 11,978
Inventories	9,328	21,705	+ 12,377
Other Current Assets	3,846	447	— 3,399
TOTAL CURRENT ASSETS	37,660	55,598	+ 17,938
Net Property	2,252	10,765	+ 8,513
Investments	6,176	6,226	+ ,050
Other Assets	571	3,006	+ 2,435
TOTAL ASSETS	$ 46,659	$ 75,595	+$ 28,936
LIABILITIES			
Accounts Payable	$ 1,439	$ 7,989	+$ 6,550
Accruals	2,545	5,584	+ 3,039
Tax Reserve	5,036	1,810	— 3,226
TOTAL CURRENT LIABILITIES	9,020	15,383	+ 6,363
Reserves	9,941	15,410	+ 5,469
Preferred Stock	4,887	4,887	....
Common Stock	7,331	8,500	+ 1,169
Surplus	10,480	31,415	+ 20,935
TOTAL LIABILITIES	$ 46,659	$ 75,595	+$ 28,936
WORKING CAPITAL	$ 28,640	$ 40,215	+$ 11,575
CURRENT RATIO	4.1	3.7	— .4

THE SPERRY CORPORATION

BUSINESS: Through subsidiaries and divisions, Sperry is a foremost developer and manufacturer of instruments and controls, electronic equipment and other products related to all three branches of the Armed Services, the Atomic Energy Commission, as well as to various industries. Output also includes farm machinery, electrical apparatus, hydraulic equipment and special machinery.

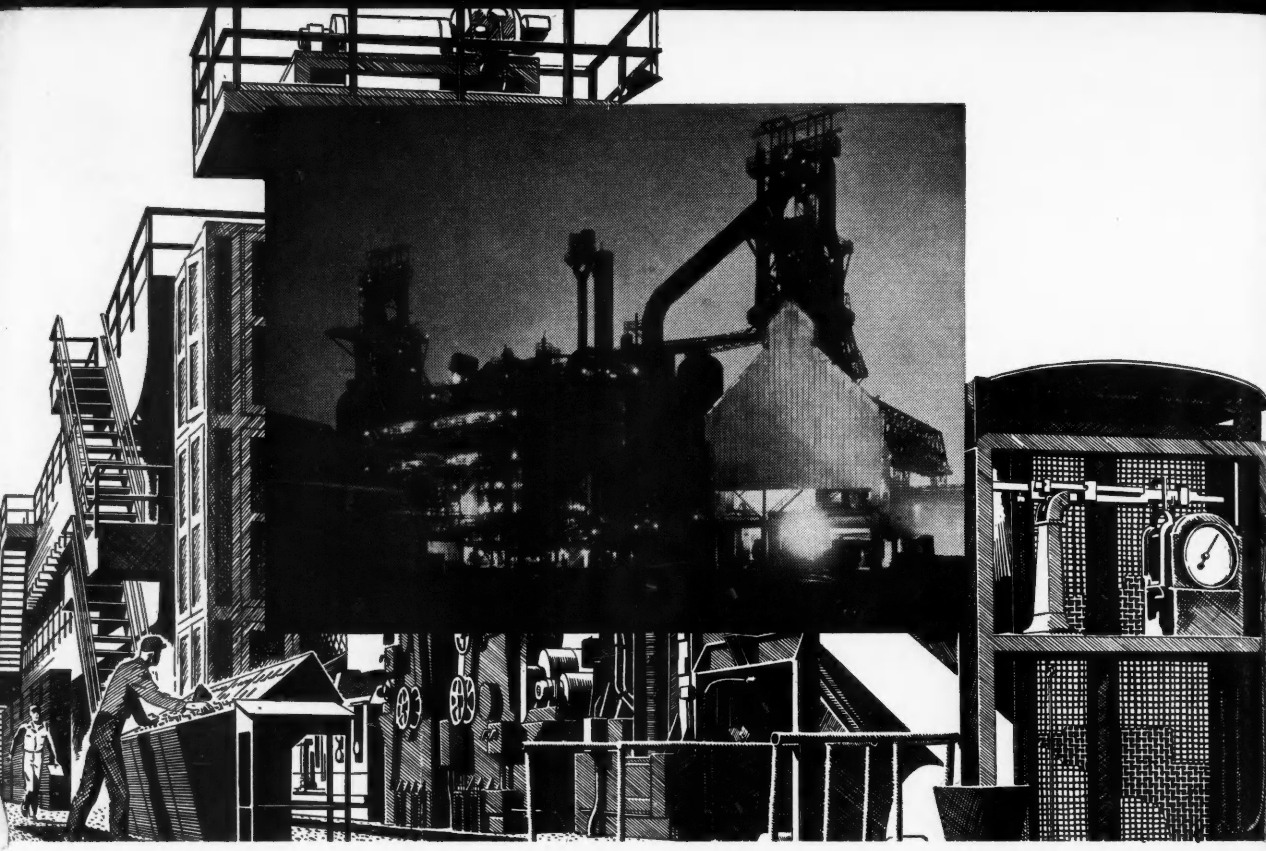
OUTLOOK: The results of Sperry's 1953 operations were the best in the company's history. Shipments of $464 million reached a new high mark, surpassing by $68 million the previous record of $396 million, established in 1952. While the 17% gain in 1953 shipments was due in part to larger defense business, commercial volume was higher than in any year of the company's existence, reflecting the expansion and diversification that Sperry has achieved since the end of World War II. Expanding industrial markets for Sperry's instruments and controls, broadening output of farm machinery and expanding use of hydraulic equipment are outstanding developments. Shipments by the hydraulic divisions in 1952 were 20% greater than in the preceding year, reflecting greater industrial demand which should continue to increase as use of hydraulic controls and devices expands with industries' progress in factory automation. At the same time, Sperry should continue to maintain its front rank position as a supplier of instruments and controls that are vital to the Navy, Army, and Air Force. These are factors that combine to provide Sperry with a broad base for continuing growth and strengthening the inherent potentials of its shares marketwise. Net earnings last year of $15.8 million were equal to $7.57 a share on the outstanding capital stock. This is after allowing for taxes that included $4.33 a share for EPT, and compares with $6.75 a share earned in 1952, after a similar EPT charge which, of course, will not be levied for 1954. With a backlog on March 1, last, of $520 million in unfilled orders, plus anticipated new business, Sperry's 1954 net should approximate $10 a share, or 3⅓ times current annual dividend needs.

DIVIDENDS: Payments have been made in each of the last 21 years. The current annual rate of $3 a share, established in 1953, was increased from $2 a share paid in each of the five preceding years.

MARKET ACTION: Recent price of 59, compares with a 1953-54 price range of High—62¾, Low—35¾. At current price the yield is 5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 43,595	$ 18,030	—$ 25,565
Notes & Accounts Receivable	71,930	93,683	+ 21,753
Invent. & Work in Prog.	87,538	109,323	+ 21,785
Other Current Assets	1,988	....	— 1,988
TOTAL CURRENT ASSETS	205,051	221,036	+ 15,985
Net Property	4,625	35,088	+ 30,463
Investments	901	841	— 060
Other Assets	8,954	2,110	— 6,844
TOTAL ASSETS	$219,531	$259,075	+$ 39,544
LIABILITIES			
Notes Payable	$ 47,000	$ 69,500	+$ 22,500
Accounts Payable	15,771	29,365	+ 13,594
Accruals	65,816	13,205	— 52,611
Tax Reserve	45,315	46,670	+ 1,355
TOTAL CURRENT LIABILITIES	173.902	158.740	— 15,162
Reserves	12,774	2,752	— 10,022
Long Term Debt	....	18.800	+ 18,800
Capital Stock	2,015	2,087	+ 072
Surplus	30,840	76,696	+ 45,856
TOTAL LIABILITIES	$219,531	$259,075	+$ 39,544
WORKING CAPITAL	$ 31,149	$ 62,296	+$ 31,147
CURRENT RATIO	1.2	1.4	+ .2



1954 Outlook for Steel Industry

No. 7 of Our Special Studies of Major Industries

By W. L. SCHROEDER

The major steel producing companies have successfully completed a very important stage of the transition from the "guns and butter" economy of the Korean War, to a more normal peacetime basis.

Going through a severe test in the first quarter of this year, the ten largest producers of steel have shown a stability of earnings that they have never been able to demonstrate before in a similar period of rapidly declining volume. For the rate of steel production, which had been dropping since last Summer, averaged nearly 30 points lower in the first quarter of 1954 than the capacity levels which ruled during the first quarter of 1953.

In the face of this drop of 30 points in volume, the nine largest steel producers showed a decline of only about 12 per cent in net profit after taxes. The scope of this achievement may be fairly appraised by the fact that it is not unusual in business to sustain a drop of three times that amount in net profit, on a dip of only 10 per cent in volume. At present the major steel producers appear to have a break-even point of under 60 per cent of capacity.

Part of this achievement of the large, well-integrated and well diversified companies can be attributed to the cushioning effect exerted by the end of the excess profits tax on Dec. 31, 1954. But some of the companies which were heavily in excess brackets a year ago would not have been in excess on the basis of their income before taxes in the first quarter of this year.

The industry, immediately preceding and during the period that these excess profits were in effect, administered its prices and costs in such a way that a tremendous capital investment program averaging $1.5 billion a year from 1951 to 1953 was financed largely out of earnings plowed back in the business.

With the end of the excess profits tax, that cost-price relationship, built up to cope with the high tax rate, is now cushioning the profit decline.

The big test, in the first quarter of this year, therefore, was in the price structure. If this could be maintained relatively firmly, at the levels created under the stimulus of the excess profits tax, the ending of that tax would leave a cushion for the entire industry, and particularly for those companies which would have continued in excess brackets if the tax had remained in effect. A cut of 10 per cent in prices is much more destructive to profit margins than a drop of 10 per cent in volume.

The steel industry, in former periods when operations dropped 30 per cent, had not been able to sustain prices very well. Usually, price cutting in one form or another would break out—waiving of extras, special deals for the big auto companies, etc. The

entire price structure would be quickly undermined by price slashing, to an extent that the industry would soon be operating in the red.

The individual steel companies, during the first quarter of this year, showed unusual restraint in the field of price competition. The price structure stood up virtually without change, save for some slashing by the marginal producers. These smaller weaker companies did not touch off a major price war, because even though they reduced some prices, they were unable to take enough business away from the larger companies to really hurt the latter. Operating rates of the large producers remained well above those of most of the smaller companies throughout the three months period, because the large companies, all during the period of shortages, had charged lower prices than the smaller companies, and thus had built up much better consumer loyalty. Freight absorption by steel mills on shipments to consumers has increased, in recent months, but it is costing the industry as a whole not over $50 million a year.

Earnings of the smaller steel companies, particularly the non-integrated companies that had been engaged primarily in the premium-priced or conversion deals during the period of shortages, showed a

Comparative Earnings and Dividend Records of Leading Steel Companies

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1951	1952	1953	1951	1952	1953	Price	Yield	1953 to Date
Acme Steel	$ 3.32	$ 2.35	$ 3.38	$ 2.00	$ 1.80	$ 1.60	21	7.6%	26¾-20
Allegheny Ludlum Steel	5.40	3.37	4.40	2.50	2.00[1]	2.00[1]	33	6.0	39 -25⅛
Armco Steel	6.69	6.01	6.50	3.00	3.00	3.00	42	7.1	43⅝-30⅝
Bethlehem Steel	10.43	8.80	13.30	4.00	4.00	5.00[2]	65	7.6	65⅞-44⅜
Carpenter Steel	9.89	6.71	7.57	3.00[1]	3.00	3.00	42	7.1	49 -39⅛
Colorado Fuel & Iron	4.89	2.64	3.09	1.50	1.50	1.50	16	9.3	20⅜-14½
Copperweld Steel	5.14	4.38	5.05	2.30	2.00	2.00	21	9.5	27¼-19½
Crucible Steel	11.90	6.13	5.29	......[6]	......[4]	......[3]	24	....	33⅝-20¾
Detroit Steel Corp.	4.43	1.80	2.16	1.00	1.00	.75[1]	9	8.3	16½- 8½
Granite City Steel	3.59	2.83	3.77	2.20	1.10[1]	......[5]	15	....	20⅞-14¼
Inland Steel	7.02	4.85	6.90	3.50	3.00	3.50	53	6.6	53¼-35⅞
Interlake Iron Corp.	2.58	2.75	2.96	1.50	1.50	1.50	14½	10.3	19¼-13½
Jones & Laughlin Steel	4.76	2.91	4.77	1.80	1.80	2.00[2]	23	8.9	24¼-19
Keystone Steel & Wire	3.87	2.59	2.87	1.60	1.60	1.60	22	7.2	24⅜-20⅝
Lukens Steel Co.	11.16	7.29	11.35	4.50	2.50	4.00	43	9.3	45¾-36⅝
National Steel	6.16	5.11	6.71	3.00	3.00	3.25	51	6.3	52¼-40⅛
Pittsburgh Steel	6.00	3.25	2.61	......[7]	......[3]	......[3]	15	....	21¾-12⅝
Republic Steel	9.03	7.21	9.25	4.00	4.00	4.50[2]	54	8.3	54½-40¾
Sharon Steel	8.06	4.65	6.10	3.50	4.00	4.00	33½	11.8	43½-32
U. S. Steel	6.10	4.54	7.54	3.00	3.00	3.00	46	6.5	47 -33½
Wheeling Steel	10.96	6.44	7.49	3.00	3.00	3.00	32	9.3	40⅜-30⅛
Woodward Iron Co.	8.33	6.14	7.86	4.00	4.00	3.00	46	6.5	53 -36
Youngstown Sheet & Tube	9.15	6.84	9.21	3.00	3.00	3.75[2]	42	8.9	47⅜-34

1—Plus stock.
2—Indicated 1954 rate.
3—Paid 8% stock.
4—Paid 10% stock.
5—Paid 12% Stock.
6—Paid 16% stock.
7—Paid 2% stock.

Acme Steel: Company concentrates in strip steels and specialties. Last year's earnings aided by tax credit. Decline in 1st quarter 1954 reflects narrower operating margin, as well as lower volume. (N)

Allegheny Ludlum Steel: Bulk of output in stainless, alloy and tool steels. Position in titanium. In spite of EPT absence, 1st quarter profits reduced by lower sales. Growth prospects, but wide price swings. (H)

Armco Steel: Major producer of sheets and stainless steels. Integrated. Plants modernized. Initial quarter earnings gain reflects good operating rate and EPT expiration. Substantial dividend coverage. (H)

Bethlehem Steel: Second largest steel ocmpany. Fully integrated. Expansion well-balanced. Finances strong. New $1.25 quarterly dividend amply covered. First quarter earnings $2.73 a share. (H)

Carpenter Steel: Long-established maker of high-priced alloy and stainless specialty steels. Continued growth indicated, but recent earnings reduced. (N)

Colorado Fuel & Iron: Integrated steel producer. Operations expanded through acquisitions and additions to main Colorado plant. Although EPT beneficiary, recent earnings sharply lower. Stock speculative. (N)

Copperweld Steel: Earnings in recent years large. Specialty manufacturer fluctuates with steel industry. Current profits' drop should be followed by improvement. (H)

Crucible Steel: The leading company in tool and specialty steels, subject to sharp fluctuations in demand. Interest in titanium. In spite of EPT benefits, 1st quarter profits reduced drastically. Stock speculative. (N)

Detroit Steel Corp.: Integrated producer of cold rolled strip steel, as well as various semi-finished steels. Finances could be improved. First quarter resulted in loss. (N)

Granite City Steel: Output concentrated in sheets, strip and tinplate. Post-war plant improvements and additions continuing. First quarter earnings lower after tax adjustments. Issue speculative. (N)

Inland Steel: Fully integrated low-cost producer in Chicago area. Competitive position strong. First quarter operations near capacity, with sizeable gain in net. Wide dividend coverage. Semi-investment quality. (H)

Interlake Iron: Moderate decline in net expected this year for this largest merchant iron producer, but dividend coverage should be adequate. (N)

Jones & Laughlin Steel: Fourth largest unit. Present operating rate lower than industry average. Quarterly dividend 50c expected to continue. (H)

Keystone Steel & Wire: Trade position relatively good. Sales and profits expected to decline in fiscal year ending June 30, but 40c quarterly dividend expected to continue. (N)

Lukens Steel: Net income expected to drop from record 1953. Yield is exceptionally high, reflecting cyclical nature of business. (N)

National Steel: Geographical location favorable. Operations should continue above-average in 1954. Price-earnings ratio good despite 1st quarter earnings drop. Yield excellent. (H)

Pittsburgh Steel: Reported deficit of $199,150 in first quarter due in part to starting-up expenses. Stock highly speculative, leverage high. (N)

Republic Steel: $250 million additional expansion underway. First quarter net off moderately. Sales expected to decline but substantial EPT savings will offset drop. New developments in taconite and atomic power. (H)

Sharon Steel: Reduced operations, narrower margins indicate decline in net. $1 quarterly dividend not secure. Relatively high-cost producer. (N)

U. S. Steel: Huge expansion, modernization program increasing capacity. Lapse of EPT will cushion decline. Annual $3 dividend should be maintained. (H)

Wheeling Steel: Sales and profits declined sharply first quarter. 75c quarterly dividend not covered. Incoming orders increasing moderately. Operating costs among lowest. (N)

Woodward Iron: Second largest pig iron producer. Reduced rate of operations indicated coming months, but net should be satisfactory. 50c quarterly likely to continue. (H)

Youngstown Sheet & Tube: Sixth largest. Heavy amortization, smaller sales and margins have reduced profit. 75c quarterly dividend expected to hold. (H)

(H) — Hold. (N) — Neutral

Comprehensive Statistics Comparing the Position of

Figures are in millions, except where otherwise stated.	Allegheny Ludlum Steel	Armco Steel	Bethlehem Steel	Granite City Steel	Inland Steel	Jones & Laughlin
CAPITALIZATION:						
Long Term Debt (Stated Value)	$ 29.5	$ 75.2	$154.9	$ 33.6	$111.1	$119.9
Preferred Stocks (Stated Value)	$ 8.1	....	$ 93.3	$ 12.1	....	$ 29.3
Number of Common Shares Outstanding (000)	1,689	5,213	9,582	1,544	4,907	6,200
TOTAL CAPITALIZATION	$ 39.3	$127.4	$551.7	$ 65.1	$173.9	$211.3
INCOME ACCOUNT: For Fiscal Year Ended	12/31/53	12/31/53	12/31/53	12/31/53	12/31/53	12/31/53
Net Sales	$241.5	$588.9	$2,082.0	$ 87.8	$575.5	$624.3
Deprec., Depletion, Amort., etc.	$ 8.5	$ 26.9	$ 73.7	$ 3.0	$ 17.2	$ 53.6
Income Taxes	$ 11.6	$ 40.7	$161.0	$ 2.8	$ 39.3	$ 29.7
Interest Charges, etc.	$ .9	$ 2.5	$ 10.5	$ 1.8	$ 3.4	$ 5.1
Balance for Common	$ 7.4	$ 33.9	$127.4	$ 5.8	$ 33.8	$ 29.5
Operating Margin	8.3%	14.0%	14.0%	17.3%	12.8%	10.7%
Net Profit Margin	3.2%	5.7%	6.4%	7.3%	5.8%	4.9%
Percent Earned on Invested Capital	9.7%	10.8%	13.2%	11.3%	13.5%	8.3%
Earned Per Common Share*	$ 4.40	$ 6.50	$ 13.30	$ 3.77	$ 6.90	$ 4.77
BALANCE SHEET: Fiscal Year Ended	12/31/53	12/31/53	12/31/53	12/31/53	12/31/53	12/31/53
Cash and Marketable Securities	$ 10.3	$ 48.1	$511.4	$ 5.7	$ 66.6	$ 49.7
Inventories, Net	$ 37.4	$114.1	$293.6	$ 23.5	$115.7	$ 97.5
Receivables, Net	$ 14.0	$ 39.5	$173.9	$ 4.3	$ 28.7	$ 39.6
Current Assets	$ 61.9	$201.7	$978.9	$ 33.6	$211.1	$186.8
Current Liabilities	$ 27.7	$ 67.6	$577.3	$ 20.3	$ 65.5	$ 84.1
Working Capital	$ 34.2	$134.1	$401.6	$ 13.3	$145.6	$102.7
Fixed Assets, Net	$ 74.3	$231.2	$746.3	$ 66.6	$199.7	$384.7
Total Assets	$139.4	$464.6	$1,782.9	$119.2	$432.8	$579.4
Cash Assets Per Share	$ 6.15	$ 9.23	$ 53.37	$ 3.71	$ 13.59	$ 8.01
Current Ratio (C. A. to C. L.)	2.2	2.9	1.7	1.6	3.2	2.2
Inventories as Percent of Sales	15.5%	19.3%	14.1%	26.8%	20.1%	15.6%
Inventories as Percent of Current Assets	60.5%	56.5%	28.4%	70.0%	54.8%	52.2%
Total Surplus	$ 69.7	$261.4	$611.8	$ 25.7	$186.8	$281.0

*—Data on dividend, current price of stocks and yields in supplementary table on preceding page.

much greater slump during the first quarter than those of the larger companies. A typical group of ten small producers, for example, including integrated, semi-integrated and non-integrated companies, showed a decline from nearly $12 million to about $3 million—a drop of 75 per cent.

Earnings of the nine largest steel producers totaled $119 million after taxes for the first quarter of this year, compared with approximately $135 million for the first quarter of last year. This represented a decline of almost 12 per cent. This group of companies accounts for over 80 per cent of the industry's production capacity, as measured in ingots, and well over 90 per cent of the industry's earning capacity, on the basis of first quarter reports. The group includes U. S. Steel, Bethlehem Steel, Republic Steel, Jones & Laughlin Steel, National, Youngstown Sheet & Tube, Inland, and Armco.

Additional Sources of Earnings

In this group are companies whose earnings are supported in fields outside of basic steel. U. S. Steel, for example, obtained considerable benefit from its interests in cement, through its wholly-owned Universal-Atlas Cement Company, largest cement producer in this country, and through its large fabricating subsidiary, American Bridge; Bethlehem is diversified in shipbuilding and in structural steel fabrication; Republic has diversified operations in kitchen cabinets and other fields of fabrication; while Armco has been successful in developing numerous steel specialties

Aside from the benefits realized through the ending of the excess profits tax, the maintenance of the price structure, and the advantages of diversification, the major steel producers had other forces working for them. They are generally able to make as much money at 85 or 90 per cent of capacity as they are at 100 per cent. owing to inefficiencies and high costs resulting from forced draft operations.

When the steel rate drops 10 or 15 points, from capacity levels the big steel companies can quickly close down, or sharply reduce production at their high cost plants.

The operation of old small blast furnaces and inefficient open hearths is discontinued. Old beehive coke ovens, which waste valuable chemical by-products are shut down, and reliance is placed entirely on the modern by-product ovens for coke. The purchasing of coal and ore from outside sources is greatly reduced, for the integrated producer is then able to support his curtailed operations with the output of his own mines. Older rolling mills are operated at a lower rate than the most modern mechanized mills, such as the exceptionally high speed facilities installed by U. S. Steel at the Fairless Works, and by Bethlehem at Sparrows Point.

Overtime for working forces has been discontinued, and this factor accounted for extremely high labor costs in the first quarter of 1953. Scrap prices, too, are sharply lower than a year ago, owing to reduced buying by steel companies.

All of the improved efficiency resulting from cur-

Leading Steel Companies

Lukens Steel	National Steel	Republic Steel	U. S. Steel	Wheeling Steel	Youngstown Sheet & Tube
$ 4.4	$ 55.0	$150.8	$ 64.4	$ 52.8	$100.0
....	....	$ 28.2	$360.2	$ 36.3	....
318	7,329	5,952	26,109	1,423	3.350
$ 7.5	$128.6	$317.6	$1,295.0	$126.2	$205.0
10/24/53	12/31/53	12/31/53	12/31/53	12/31/53	12/31/53
$ 97.8	$634.1	$1,145.1	$3,853.0	$217.3	$548.0
$ 1.7	$ 30.3	$ 41.0	$238.0	$ 11.4	$ 30.6
$ 9.9	$ 69.3	$100.5	$323.0	$ 14.0	$ 27.9
$ .3	$ 1.7	$ 5.1	$ 2.1	$ 1.8	$ 3.1
$ 3.6	$ 49.1	$ 55.0	$196.8	$ 10.6	$ 30.8
13.9%	18.2%	13.8%	13.9%	11.7%	10.2%
3.6%	7.7%	4.9%	5.7%	5.7%	5.6%
13.7%	13.4%	12.0%	9.8%	8.1%	9.4%
$ 11.35	$ 6.71	$ 9.25	$ 7.54	$ 7.49	$ 9.21
10/24/53	12/31/53	12/31/53	12/31/53	12/31/53	12/31/53
$ 7.4	$100.0	$ 79.2	$431.9	$ 10.8	$113.7
$ 13.9	$ 86.6	$158.0	$505.4	$ 61.4	$ 80.1
$ 5.9	$ 27.1	$ 55.5	$237.0	$ 11.2	$ 43.3
$ 27.3	$213.8	$293.8	$1,174.3	$ 83.7	$237.3
$ 15.6	$ 78.2	$101.5	$828.3	$ 19.3	$ 77.9
$ 11.7	$135.6	$192.3	$346.0	$ 64.4	$159.4
$ 17.8	$276.6	$384.0	$1,970.0	$136.5	$240.2
$ 46.3	$527.8	$741.3	$3,247.5	$234.1	$513.9
$ 23.48	$ 13.64	$ 13.31	$ 16.54	$ 7.61	$ 33.96
1.7	2.7	2.9	1.4	4.3	3.0
14.2%	13.6%	13.8%	13.1%	28.2%	14.6%
51.0%	40.5%	53.8%	43.0%	73.4%	33.7%
$ 23.0	$290.8	$304.8	$1,024.0	$ 80.2	$219.9

tailment of operations was not immediately obtainable in the first quarter. For example, labor costs in the industry as a whole appear to have declined 10 per cent or less, whereas production dropped to an average of 72 per cent of capacity, or about 28 per cent, compared with 1953. This is accounted for by the fact that in closing down facilities and banking furnaces, there is usually a lag in cutting labor costs, owing to the performance of necessary maintenance work on such idled facilities, etc. In the second quarter, it is possible that the drop in labor costs will make a better showing compared with the same quarter of 1953.

Rail Orders Down

Producers like Bethlehem and U. S. Steel, which operated at 77 per cent and 80 per cent respectively in the first quarter—well above the average for the industry—were producing in April at only 71 per cent and 69 per cent respectively. The wide margin by which they had been outproducing the rest of the industry was virtually eliminated. Ths unfavorable development was explained as having been caused by cancellation of orders by railroads for steel rails and railroad equipment.

Both U. S. Steel and Bethlehem entered the first quarter with large backlogs—U. S. Steel had unfilled orders totaling 6 million tons at the end of January, and 5 million at the end of March. Bethlehem cut its order backlog during the quarter from 3.2 million tons to 2.3 million tons. Unless the railroads reinstate some of their orders,—and this is not expected soon—both Bethlehem and U. S. Steel will show a slightly lower average rate for the second quarter, than for the first quarter. However, their production rate will be fully up to the average for the industry.

Steel producers generally report that incoming orders are now fully supporting the steel operations rate. They expect that production will edge up very slowly for the next three months. The consensus now is that the steel industry as a whole will average about 73 or 74 per cent this year, or a point or two better than the average rate for the first quarter. Since the second quarter will average only about 70 to 75 per cent, barring a sudden pickup in new orders, the industry apparently feels confident that the second half will see production average around 75 per cent, to bring the year's average up to 73 per cent. In some months this Fall, the rate may get as high as 80 per cent.

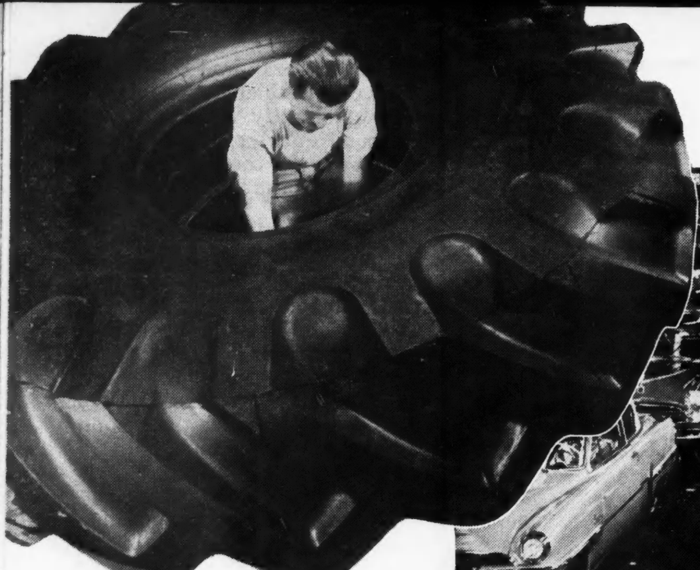
Cut in Inventories a Deciding Factor

The decline in steel output has been caused primarily by the desire of steel consumers to cut their inventories, rather than by a severe general decline in industrial activity. This is shown in the fact that the Federal Reserve Board index of industrial production has dropped only about 10 per cent since the peak of last year, whereas steel production has declined 30 per cent. The differences between these two figures represents the extent to which consumers are living off their steel inventories, which were admittedly very large at one time. Steel is probably going into consumption at a rate that is probably at least 15 per cent greater than the present level of steel output.

With the fear of steel shortages ended, for the present, inventories of steel are being brought down to a more economical level. This trend is expected to continue, at a slower rate for several months at least.

There is one factor, however, which could quickly change the inventory policies of American consumers. The steel industry is now going into collective bargaining with the United Steel Workers-CIO on an entirely new contract, replacing the present two year contract which expires July 1, 1954. In the past, when steel was scarce, these wage negotiations always resulted in protective buying by steel consumers, even in years when no strike occurred. Last year, for example, steel consumers stocked up heavily prior to May or June, when the steel union reopened the present contract under the wage reopening clause. A quick settlement early in June, weeks before the strike deadline, left consumers with excessive stocks. This year, steel consumers have been less worried about strike-caused steel shortages.

The President of the United Steel Workers—David J. McDonald, has indicated that he will ask for a guaranteed annual wage, along with increases in wages and pension and insurance benefits. The guaranteed annual wage demand, if pressed, would almost certainly result (*Please turn to page* 254)



At Left — A giant tire manufactured by Firestone Tire and Rubber Co.

Below — Plymouth main plant in Detroit, world's largest single automobile assembly plant.

1954 Outlook for AUTO—ACCESSORIES—TIRES

By GEORGE L. MERTON

No. 8 of Our Special Studies of Major Industries

The automobile industry needs something more substantial than rose-tinted glasses to bolster confidence. It is suffering from a sort of mal de mer that closely resembles what an experienced bon vivant would describe as that 'morning after" feeling. The "good old days" of plush profits have gone—perhaps for a long time. For the first time in more than a dozen years, merchandising of motor cars has returned to normal; no longer is it necessary to "know some one" or to pay a premium for early delivery. Both manufacturers and distributors find the adjustment from boom conditions a bit difficult.

Many disillusioned dealers who entered the business after the war have discovered that the "shoe is on the other foot." Inducements have to be granted to customers. In many areas, new car buyers can virtually name their own terms—and almost everywhere dealers are prepared to give discounts of one kind or another. This means, of course, that dealers must get out and hustle to dispose of new cars shipped by manufacturers as well as a large inventory of used vehicles taken in trade. Profits in the distribution end of the business have shrunk amazingly in the last few years. Margins on new cars have dropped back almost to pre-war ratios, while most dealers consider themselves lucky if they can break even on used cars.

As might be expected, the return of keenly competitive conditions in manufacturing and in selling motor cars has been reflected in major readjustments among makers of automotive accessories as well as in the rubber tire industry. Developments in these two interrelated activities will be discussed further along in this article. Before turning to the outlook for parts makers and the tire companies, it is important to note changes that have occurred since the suspension of peacetime operations in motor car making more than a decade ago. The huge deferred demand for new cars built up while the industry was engaged in production of armament accounted for the subsequent boom that now is fading.

The large postwar demand for motor cars, accentuated in 1950 by the Korean crisis, provided the basis for enlargement of productive facilities and for generous inducement to labor to build up a working force adequate to man greater manufacturing establishments. Favorable conditions were prolonged by the rush of consumers for new cars in 1950 and 1951 when there seemed to be a threat of conversion of manufacturing operations to armament production. Accordingly, more cars were made and marketed in 1951 than otherwise would have been put into circulation. The adjustment to reduced demand was put off a couple of years.

"Normality" Returns

Restoration of normal conditions began to manifest itself about a year ago, when buyers became more discriminating and demanded colors and styles that previously they had been unable to specify without the possibility of long delays in delivery. At that time, however, several manufacturers introduced attractive features such as automatic transmissions, power brakes, increased window space and other inducements to encourage purchases. Volume

Statistical Data on Auto, Auto Accessory and Rubber & Tire Companies

(A) LEADING AUTO AND TRUCK MANUFACTURERS

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1951	1952	1953	1951	1952	1953	Price	Yield	1953-1954
Chrysler	$ 8.27	$ 9.04	$ 8.59	$ 7.50	$ 6.00	$ 6.00	58	10.3%	96¼-56¼
Fruehauf Trailer	3.94	3.61	4.46	2.00	2.00	2.00	26	7.6	27¼-23⅛
General Motors	5.64	6.26	6.69	4.00	4.00	4.00	67	5.9	69¾-53⅝
Mack Trucks	1.57	.70	1.63	1.00	1.00	[1]	13	......	15⅞-10⅛
Packard Motor Car	.38	.39	.38	.30	.15	.20[2]	3½	......	6¾- 3½
Studebaker	5.36	6.06	1.14	3.00	3.00	3.00[5]	16	......	43½-15½
White Motor Co.	5.83	4.44	6.20	2.25	2.50[4]	[4]2.50[3]	29	8.5	30⅛-23

1—Paid in stock. 2—No div. action 2/17/54. 3—Indicated 1954 rate. 4—Plus stock.

NOTE: American Motor and Kaiser Motor Corp. not included; recent consolidations invalidate old data on the constituent companies; Hudson and Nash merged into Amer. Motors; major portion Willys-Overland absorbed by Kaiser Motor. 5—No div. action April 28.

(B) LEADING AUTO ACCESSORY COMPANIES

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1951	1952	1953	1951	1952	1953	Price	Yield	1953-1954
Bendix Aviation	$ 5.58	$ 7.22	$ 8.20	$ 3.00	$ 3.75	[1]$ 3.00[2]	72	4.1%	74 -50
Borg-Warner	8.84	9.33	9.77	5.00	5.00	5.00	82	6.0	86 -64¾
Bower Roller Bearing	3.04	2.99	3.06	2.00	2.00	2.00	27	7.3	33 -25
Eaton Mfg.	5.75	5.27	5.41	3.00	3.00	3.00	45	6.6	48½-36¼
Electric Auto-Lite	7.47	6.55	6.73	3.00	3.00	3.00[1]	40	7.5	57 -39½
Electric Storage Battery	4.06	2.48	1.87	2.50	2.00	2.00	24	8.3	37¾-23¼
Houdaille-Hershey	2.61	2.22	3.27	1.25	1.25	1.50	16	9.3	17 -12
Motor Products	8.20	6.11	6.62	2.75	2.00	1.00[2]	17	5.8	34⅜-17
Rockwell Spring & Axle*	......	......	3.12	......	......	2.00[2]	21	9.5	21⅞-18¼
Stewart-Warner	3.20	3.30	3.04	1.75	1.75	1.95[2]	20	9.7	23⅛-16¾
Thompson Products	5.64	6.83	7.12	2.00	2.00	2.00[1]	63	3.1	63⅜-41¼
Timken Roller Bearing	5.81	4.38	4.48	3.00	3.00	3.00	41	3.1	46¾-35

***—Consolidation of Standard Steel Spring and Timken-Detroit Axle 9/30/53. 1—Plus stock. 2—Indicated 1954 rate.**

(C) LEADING TIRE & RUBBER STOCKS

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1951	1952	1953	1951	1952	1953	Price	Yield	1953-1954
Dayton Rubber	$ 4.88	$ 2.47	$ 2.57	$ 1.20	$ 2.00	$ 1.25[1]	15	8.3%	23¾-14⅞
Firestone Tire & Rubber	12.27	10.89	11.77	3.50	3.50	3.75	71	5.2	76 -53⅜
General Tire & Rubber	5.59	4.83	4.91	1.75	2.00	2.00	33	6.0	35¼-22¾
Goodrich (B. F.)	8.15	7.60	8.16	2.50	2.65	3.20[1]	89	3.5	93¼-60¼
Goodyear Tire & Rubber	8.18	8.30	10.28	3.00	3.00[2]	3.00[2]	61	4.9	63¾-43¾
Lee Rubber & Tire	8.62	6.66	6.01	5.00	3.50[2]	4.00[2]	56	7.1	64 -47
Seiberling Rubber	3.30	1.48	2.11	1.00	1.00	1.00	8	12.5	12¼- 8
U. S. Rubber	4.76	4.33	5.19	2.00	2.00	2.00	32	6.2	34⅝-23¼

1—Indicated 1954 rate. 2—Plus stock.

Leading Auto and Truck Manufacturers

Chrysler Corp.: Serious decline in sales emphasizes need for policy changes and new styles to spur consumer interest. (N)

Fruehauf Trailer: Necessity for achieving operating economies in transportation provides stimulus for use of trailers. (H)

General Motors: Aggressive management sets fast pace for passenger car makers; leadership in other fields bolsters position. (H)

Mack Trucks: Strong balance sheet adds to prospects as nucleus for new combination of truck manufacturers.

Packard Motor Car: Difficulty of attaining requisite volume in a distinctive model poses problem for sales minded executives. (N)

Studebaker: Lack of success in stimulating sales with radical designs chief cause of woes; drop in truck sales also a factor. (N)

White Motor: Realization of financial and competitive benefits of mergers with small competitors contributing to progress. (H)

Leading Auto Accessory Companies

Bendix Aviation: Prospect for continuance of large volume of aircraft orders promises to bolster sales and earnings. (H)

Borg-Warner: Strong consumer preference for passenger cars with automatic transmissions and power steering due to boost sales. (H)

Bower Roller Bearing: Indicated rise in replacement business and aid of tax relief likely to retard decline in sales and earnings. (N)

Eaton Manufacturing: Drop in original equipment orders and higher operating may be offset to some extent by elimination of EPT. (H)

Electric Auto-Lite: Heavy dependence on Chrysler for original equipment sales seems a handicap, but EPT relief should help some. (N)

Electric Storage Battery: Although earnings are unlikely to be depressed by inventory writeoffs, current dividend seems uncertain, due to low coverage. (N)

Houdaille-Hershey: Reduced original equipment volume and keener competition threaten profit margins, but modest dividend seems safe. (N)

Motor Products: Adverse effects of reduced production in Chrysler and independent plants already evident in slump in profits. (N)

Rockwell Spring & Axle: Drop anticipated in deliveries to passenger car and truck makers, but recovery seen for heating equipment. (N)

Stewart-Warner: Better-than-average market in replacement items should help cushion decline in sales; conservative dividend. (H)

Thompson Products: Improvement in earnings may be achieved with benefit of tax relief despite expected drop in some products. (H)

Timken Roller Bearing: Pressure on profit margins anticipated as result of keener competition, but diversification may aid sales. (N)

Leading Tire & Rubber Stocks

Dayton Rubber: Keener competition for replacement tire business, in line with drop in original equipment sales, indicated. (N)

Firestone Tire & Rubber: Progress in plastics and mechanical rubber goods should cushion decline in margins on tires. (H)

General Tire & Rubber: Keener competition and absence of special income may contribute to decline in earnings this year. (H)

B. F. Goodrich: Growth in chemical volume and tax relief promise to counteract adverse effect of keener competition in tires. (H)

Goodyear Tire & Rubber: Major dependence on tires expected to prove handicap, but non-tire products gaining in importance. (H)

Lee Rubber & Tire: Promising outlook for replacement tire volume and gains in belting should sustain good earnings. (H)

Seiberling Rubber: Progress in plastics counted on to cushion setback in tires, tax relief offers promise of aid for earnings. (N)

U. S. Rubber: Encouraging outlook for replacement sales and uptrend in foam rubber and other products should help profits. (H)

RATING — (H) — Hold. (N) — Neutral.

Comprehensive Statistics Comparing the Position of Leading Auto

Figures are in millions, except where otherwise stated.	AUTOS			AUTO ACCESSORIES	
	Chrysler	General Motors	Studebaker Corp.	Bendix Aviation	Borg Warner
CAPITALIZATION:					
Long Term Debt (Stated Value)	....	....	$ 6.7	....	....
Preferred Stocks (Stated Value)	....	$285.5	....	....	$ 17.1
Number of Common Shares Outstanding (000)	8,702	87,465	2,361	2,117	2,396
TOTAL CAPITALIZATION	$217.5	$728.1	$ 9.1	$ 10.5	$ 29.6
INCOME ACCOUNT: For Fiscal Year Ended	12/31/53	12/31/53	12/31/53	9/30/53	12/31/53
Net Sales	$3,347.8	$10,027.9	$594.2	$638.5	$407.3
Deprec., Depletion, Amort., etc.	$113.4	$178.3	$ 4.8	$ 6.0	$ 8.5
Income Taxes	$125.0	$1,054.5	$ 2.3	$ 44.3	$ 33.6
Interest Charges, Etc.	....	....	$ .2	$ 1.6[1]	....
Balance for Common	$ 74.7	$585.1	$ 2.6	$ 17.3	$ 23.4
Operating Margin	5.8%	16.2%	8.8%	9.8%	13.6%
Net Profit Margin	2.2%	5.9%	4.5%	2.7%	5.8%
Percent Earned on Invested Capital	13.1%	20.5%	2.4%	13.5%	12.9%
Earned Per Common Share*	$ 8.59	$ 6.69	$ 1.14	$ 8.20	$ 9.77
BALANCE SHEET: Fiscal Year Ended	12/31/53	12/31/53	12/31/53	12/31/53	12/31 53
Cash and Marketable Securities	$120.5	$367.3	$ 29.4	$ 44.8	$ 84.4
Inventories, Net	$277.9	$1,446.6	$ 72.5	$121.7	$ 66.6
Receivables, Net	$ 96.9	$543.0	$ 8.2	$107.8	$ 38.6
Current Assets	$519.6	$2,357.1	$ 93.1	$274.4	$189.7
Current Liabilities	$327.7	$1,120.9	$ 42.6	$194.5	$ 73.0
Working Capital	$191.9	$1,236.2	$ 50.5	$ 79.9	$116.7
Fixed Assets, Net	$345.5	$1,536.3	$ 63.3	$ 46.1	$ 61.9
Total Assets	$897.9	$4,405.4	$157.8	$328.7	$189.7
Cash Assets Per Share	$ 13.84	$ 4.20	$ 12.48	$ 21.20	$ 35.23
Current Ratio (C. A. to C. L.)	1.6	2.1	2.2	1.4	2.6
Inventories as Percent of Sales	8.2%	14.4%	12.2%	19.0%	16.3%
Inventories as Percent of Current Assets	53.4%	61.3%	77.8%	44.3%	35.1%
Total Surplus	$352.5	$2,204.1	$106.0	$117.6	$156.0

*—Data on dividend, current price of stock and yields in supplementary table on preceding page. [1]—Interest on bank loans.

of business in 1953 held up better than had been anticipated. The letdown came late last year when demand for 1954 models failed to come up to optimistic projections.

General Motors and Ford seemingly were better prepared for the change in conditions than their competitors, for these manufacturers have been able to maintain output and sales within striking distance of figures for the comparable period of last year. Both these companies boosted April production schedules in spite of indications of high dealer inventories. They appeared to be making preparations for longer than usual summer vacations or for a possible lull in production if wage negotiations in the steel industry should result in another strike this summer. As a result of the setup in operations in General Motors plants, this giant of the industry gave promise of capturing between 50 and 55 per cent of total second quarter production. In fact, the two major manufacturers have been accounting for upward of 80 per cent of output this quarter. Chrysler's proportion has dwindled to the lowest ratio in years.

To meet the challenge posed by keener competition the industry has undertaken several developments. Some of the smaller independents have combined operations and others have discussed similar amalgamations. Because of rigid labor factors, however, economies in this direction are difficult to achieve. Some manufacturers have introduced new models embodying up-to-date features. Sports cars utilizing plastic bodies, for example, are being offered as a means of whetting the public's appetite for "something different." All major producers have taken steps to bring out old fashioned low-priced cars with a minimum of extras in the way of accessories, but thus far the experts have not become convinced that such types would click.

As a matter of fact, industry observers contend that the success of Ford and General Motors can be traced to the fact that buyers have shown a preference for the Ford and Chevrolet models featuring automatic transmissions, power steering and other modern attributes over higher-priced makes lacking the innovations. So impressive has been the trend toward automatic transmissions, for example, that Detroit people look for this equipment to become standard within another year or two—at least, so far as the more expensive makes are concerned.

The notable progress of General Motors and Ford (earnings of GM in the 1st quarter were $2.13 a share compared with $1.70 a share) this season has presented a serious challenge to the Chrysler management. The latter's decision to expand production of components in an effort to achieve lower costs was the first step in an extensive rearrangement of operations that may involve other adjustments. Automotive facilities of the Briggs Manufacturing Corporation have been acquired. Payment is to be made later this year, and in this connection a large loan has been obtained from financial institutions. The

& Truck, Auto Accessory and Tire & Rubber Companies

AUTO ACCESSORIES (Cont.)					TIRE & RUBBER			
Eaton Mfg.	Electric Auto-Lite	Electric Storage attery	Thompson Products	Timken Roller Bearing	Firestone Tire & Rubber	Goodrich (B. F.)	Goodyear Tire & Rubber	U. S. Rubber
....	$ 19.6	$ 9.4	$ 15.0	....	$118.7	$ 54.5	$195.4	$120.8
....	....	....	$ 8.9	....	$ 8.0	....	$ 56.4	$ 65.1
1,789	1,569	907	1,304	2,421	3.938	4.194	4,520	5,302
$ 3.5	$ 27.5	$ 33.0	$ 30.4	$ 25.0	$175.9	$ 96.5	$280.4	$212.5
12/31/53	12/31/53	12/31/53	12/31/53	12/31/53	10/31/53	12/31/53	12/31/53	12/31/53
$201.0	$285.0	$ 96.1	$326.4	$178.1	$1,029.4	$674.6	$1,210.5	$839.8
$ 3.7	$ 5.0	$ 2.1	$ 5.9	$ 6.3	$ 24.6	$ 13.4	$ 30.1	$ 16.0
$ 16.8	$ 10.5	$ 1.0	$ 18.0	$ 27.2	$ 47.4	$ 53.8	$ 68.4	$ 39.8
....	$ .6	$ .4	$ 2.2	....	$ 4.3	$ 1.8	$ 7.1	$ 3.7
$ 9.6	$ 10.5	$ 1.6	$ 9.2	$ 10.8	$ 46.3	$ 34.2	$ 46.4	$ 27.5
13.0%	7.2%	2.7%	9.1%	21.3%	9.4%	13.1%	10.2%	8.4%
4.8%	3.7%	1.7%	2.9%	6.1%	4.5%	5.0%	4.0%	3.9%
15.3%	10.6%	3.3%	13.7%	13.0%	15.1%	15.2%	15.6%	14.6%
$ 5.41	$ 6.73	$ 1.87	$ 7.12	$ 4.48	$ 11.77	$ 8.16	$ 10.28	$ 5.19
12/31/53	12/31/53	12/31/53	12/31/53	12/31/53	10/31/53	12/31/53	12/31/53	12/31/53
$ 18.7	$ 19.4	$ 6.6	$ 20.1	$ 18.0	$ 67.0	$ 93.0	$ 68.0	$ 70.5
$ 21.9	$ 44.4	$ 19.9	$ 60.8	$ 38.2	$192.1	$128.3	$245.9	$192.8
$ 15.5	$ 22.4	$ 10.4	$ 30.8	$ 10.2	$132.7	$ 94.5	$149.9	$ 96.1
$ 56.2	$ 87.1	$ 37.1	$111.8	$ 66.5	$391.9	$315.9	$463.9	$359.5
$ 30.0	$ 26.7	$ 6.7	$ 66.5	$ 24.1	$ 98.6	$105.5	$ 62.4	$128.3
$ 26.2	$ 60.4	$ 30.4	$ 45.3	$ 42.4	$293.3	$210.4	$401.5	$231.2
$ 36.0	$ 57.4	$ 30.1	$ 37.3	$ 42.2	$159.2	$115.0	$191.6	$121.6
$ 93.1	$145.7	$ 69.4	$151.8	$112.3	$567.4	$436.9	$666.3	$488.5
$ 10.49	$ 12.38	$ 7.33	$ 15.41	$ 7.43	$ 17.03	$ 22.19	$ 15.05	$ 13.32
1.8	3.2	5.5	1.6	2.7	4.0	3.0	7.4	2.8
10.9%	15.6%	20.7%	18.6%	20.9%	18.6%	19.0%	20.3%	22.9%
39.0%	51.0%	53.8%	54.4%	57.5%	49.0%	40.6%	53.2%	53.6%
$ 59.6	$ 91.4	$ 26.6	$ 25.0	$ 58.2	$251.0	$182.7	$230.5	$132.7

move suggests that other acquisitions may follow. The fact that competitive models have attracted greater public acceptance may trace to a need for restyling of several lines.

Conditions Among Independents

Nash and Hudson have united as the American Motors Corporation in an effort to counteract rising costs that affected profits as soon as volume of sales declined. The combined facilities have capacity sufficient to produce upward of 400,000 vehicles a year, it is estimated, but production thus far has been at an indicated annual rate considerably under this figure. However, with $350 million in assets and a potential sales volume of $700 million, management should meet the challenge successfully over the long term, particularly in view of the solid integration effected.

Studebaker has been hampered by overproduction of 1953 models which accumulated in large volume late last year. Operations in the March quarter fell short of hopes and expectations, showing up poorly in comparison with a disappointing first three months of 1953. Packard likewise has felt the adverse effects of keen competition and reduced volume. This company faces the necessity of finding facilities for the manufacture of bodies now that its arrangement with Briggs has been terminated by the latter's withdrawal from the automotive business. Conversations are reported to have been held looking toward a merger of these two independents, but little progress seems to have been made.

Other passenger car manufacturers scarcely figure in the industry's calculations. Acquisition by the Kaiser interests of Willys Overland's automotive properties has enabled the former to maintain an interest in manufacturing motor cars, but chances of success under current keenly competitive conditions seem to have been reduced by labor contracts that make production economies difficult.

Somewhat similar conditions prevail among truck manufacturers. The major automotive companies, including General Motors, Ford and Chrysler, have gained a strong foothold in the manufacture of light trucks. Fruehauf Trailer has come along rapidly in capturing a large slice of the heavy commercial vehicle business in manufacturing trailers. White Motor appears to have moved up to first position in heavy trucks. The smaller makers are finding competition pretty stiff.

Notwithstanding the return to prewar competitive conditions, the outlook is not as threatening as could be imagined. Encouraging factors are a comparatively high personal income that has considerable bearing on the number of cars sold each year; the growing tendency of industrial employees to drive to places of employment; and a steadily rising standard of living that encourages owning two or more cars in the family.

Production this year (*Please turn to page* 257)

Two Leading Metal Fabricators Compared

By FRANK L. WALTERS

Both Revere Copper & Brass and Bridgeport Brass, aided by the elimination of the excess profits tax, got off to a good 1954 start in the first quarter. Despite the fact that Revere's first three months' sales of $51.6 million were off by approximately 20% from $64.5 million for the corresponding period of last year, net income increased to $1.80 a share from $1.68 a share a year ago. Sales of Bridgeport Brass followed the same pattern, falling about 21% in the quarter ended last March to $26.8 million from $33.9 million shown for the first 1953 quarter, but resulting in net income equal to $1.10 a share as compared with $1.02, based on number of shares of stock currently outstanding.

This downtrend in sales volume of both companies in the first three months was not entirely unexpected. Signs of a drop from 1953 levels began to appear in the final quarter of that year when reduced rate of activity reflected restricted customer purchasing for the purpose of reducing inventories and in anticipation of lower copper prices that failed to materialize.

New Business in Sight

Apparently, this situation has been reversed. Announcement of new stock-piling objectives formulated by the Government and an already tighter copper market brought an influx of new business to the two companies with the opening of the second quarter of the current year, as customers apparently endeavored to bring inventories up to a more normal level. The immediate outlook is for continued improvement and if maintained through the balance of the year should enable Revere and Bridgeport to better 1953 showings on a per share basis now that neither company is burdened by the excess profits tax.

Last year, Bridgeport Brass, on the basis of its 1,203,362 shares, paid out $2.63 a share EPT, after which it was able to show net on this same number of shares equal to $4.43 a share. Revere's EPT payment amounted to $5.75, but even so, it was able to report net earnings equal to $8.07 a share. Net sales for the year totaled $250.6 million as compared with Bridgeport's 1953 volume of $142.6 million.

The outlook for both companies is further improved as a result of the improvement and expansion programs each has been pursuing in recent years. For example, Bridgeport Brass activities in 1953 were marked by the development of a line of "Encased Copper" cooking utensils to be put on the market sometime this year; erection of a new tube mill, scheduled for operation within the next few months with equipment of the most modern design for producing tubes in a wider range of sizes and alloys more economically than on the present type of equipment. Another outstanding development in Bridgeport's affairs was the leasing from the U.S. Air Force in 1953 of a large aluminum forging and extrusion plant at Adrian, Mich. This plant, officially taken over by the company towards the end of last February, puts Bridgeport emphatically in the aluminum fabricating field in which it has been conducting research and development work with some minor volume of production since 1951.

Its equipment is regarded as the most modern and efficient in the metal industry, and includes a 16,500-ton forge press and 16 extrusion presses ranging from 1,650 tons to one of 5,500 tons, as well as draw benches, semi-continuous casting machines, and five 25,000 pound melting furnaces. The Adrian plant is capable of turning out special extruded structural shapes in high-strength, heat-treatable aluminum alloys widely used in aircraft construction and other engineering applications where a high ratio of strength per unit weight is desirable. Other output will consist of standard commercial items such as extrusions, rods and tubes in various aluminum alloys, sizes and shapes.

Bridgeport's taking over of the plant was under auspicious circumstances. It was able to absorb a large number of trained executives and workmen thoroughly familiar with the plant and its operations, acquiring at the same time a number of customers' dies and tools for the extrusion and forging presses so that there was little, if any, loss of time in getting operations under way. The plant has been supplying extruded shapes and large forgings to a number of aircraft manufacturers, some of whom have placed substantial orders with the company for the same parts.

Inasmuch as many of Bridgeport's regular customers are also buyers of aluminum mill products, the company is looking forward to rounding out operations at the Adrian plant with business from these and other sources for commercial extrusions, rod and tubing. Acquisition, by lease, of the huge Adrian aluminum plant is estimated to have ad-

vanced Bridgeport's position in the fast-growing aluminum mill products field by from three to five years over the program in which it had been engaged.

Revere's Operations

Revere Copper & Brass, more versatile in its operations than its competitor, ever since its expansion into the field of lighter metals some 11 to 12 years ago, has moved steadily ahead producing aluminum extrusions, forgings and other forms, for numerous end uses in the aircraft, automotive, building, household and transportation industries. At the same time, it has maintained its front rank position as a producer of copper, brass and bronze sheets, plates, extruded shapes as well as a wide range of other products in these metals. It also produces similar products in nickel silver, supro-silver, steel and stainless steel. In the latter group is the famous "Revere Ware Copper Clad Stainless" cooking utensils, sales of which were at an all-time record high in 1953.

That year was also one of continued progress for the company in improving manufacturing facilities and acquiring new equipment for the purpose, among other objectives, of reducing production costs and broadening its line of products. A major modernization program undertaken at Revere's Detroit, Mich., plant during 1953 and completed only a short time ago in 1954, replaced old and obsolete equipment that should result in considerably lower costs.

In addition to increasing output at the Baltimore, Md., plant, which is a large producer of tubing, extruded shapes and sheet aluminum, other alloys and types of aluminum products were made available during 1953, and the list is expected to be further augmented during the current year. Other improvements at this plant included extensive additions making it self-sufficient in aluminum billet casting, and the installation of more furnaces and slitting equipment to improve manufacturing efficiency and to provide for growth.

Plans for the complete modernization of the Dallas Division plant at Chicago, have been outlined. This program, involving approximately $2 million capital expenditures, provides for the acquisition of new and larger rolling mills operating at higher speeds, taking greater reductions and providing greater widths, and making possible lower production costs. Another appropriation of a little more than $1.5 million has been authorized by Revere for modernization and new equipment at its Rome, N. Y. mill, including larger and more modern extrusion presses.

Reflecting this continuous policy of improving operating efficiency is the growth of Revere in the postwar era. Since 1946, sales have increased from $116 million to 1953's record high of $250.6 million, a gain of 116% over a period of seven years. Factors that have contributed to this showing have been the company's aggressiveness, through its manufacturing division, in developing new products, and the strategic location of its 10 plants so located as to efficiently serve all sections of the country.

Within the same seven year period, the company's net property account has grown from $15.2 million to $22.6 million at the close of last year, without resorting to outside financing. At the same time it retired over $9 million in preferred stock in 1951, this action being preceded in 1948 by the redemption out of earnings of the remaining issue of First Mortgage bonds, then outstanding at $2,935,000.

Bridgeport Brass' growth over the years from the end of 1946 to 1953, has been faster than that of Revere. From net sales of $57.2 million in the earlier year, its volume increased to $142.6 million for 1953, a gain of 149%. Like Revere, Bridgeport also has built up its plants and equipment, largely through retained earnings, although it did increase the amount of common stock outstanding through its offering in the latter part of last year of 240,672 shares, netting the company $4,959,724 which will be used to help finance the growth program. In the years since the close of 1946, the net property account has increased from slightly more than $8 million to approximately $15 million at the end of 1953, an achievement accompanied by a year to year reduction in preferred stock and the complete elimination of that issue early in 1952.

Both companies entered 1954 with strong finances. In its balance sheet dated December 31 last, Revere's current assets totaled $48.6 million. Of this amount approximately $12 million consisted of cash and U. S. Treasury bills.

The outlook for Revere and Bridgeport is for continued growth over the long-term. This applies to the copper fabricating field as well as to that of aluminum which has set a fast pace in growth in recent years and promises to expand perhaps at a faster rate through increasing use by aircraft, automotive, building, air conditioning, etc.

At current quotations, Revere is selling around 46, and Bridgeport Brass at 27½. Both issues appear underpriced on the basis of 1953 earnings and 1954 prospects. At current prices, Revere, which is expected to duplicate 1953 dividend payments of $4 a share this year yields 8.7%; while Bridgeport Brass which is on an annual dividend basis of $2 a share yields 7.2%.

Comparison of Two Leading Metal Fabricators

BRIDGEPORT BRASS CO.

CAPITALIZATION:	
Long Term Debt (Mil.)	$ 6.8
Preferred Stock	None
Common Stock (No. of Shares)	1,203,362
Total Surplus (Mil.)	$ 22.1

	Net Sales (Millions)	Earnings Per Share	Div. Per Share
1944	$ 62.7	$ 1.62	$ .90
1945	52.8	.98	.45
1946	57.2	3.19	.60
1947	60.3	1.03	.90
1948	74.8	1.85	.15
1949	54.7	(d) 1.43	.15
1950	91.8	4.55	1.00
1951	101.7	4.04	1.50
1952	127.5	4.23	1.70
1953	142.6	4.43	2.00

REVERE COPPER & BRASS, INC.

CAPITALIZATION:	
Long Term Debt (Mil.)	None
Preferred Stock	None
Common Stock (No. of Shares)	1,286,916
Total Surplus (Mil.)	$ 53.4

	Net Sales (Millions)	Earnings Per Share	Div. Per Share
1944	$143.7	$ 1.73	....
1945	119.7	.33	....
1946	116.0	3.61	$ .25
1947	152.2	5.93	1.00
1948	150.5	5.02	1.25
1949	117.2	3.56	1.50
1950	175.6	8.47	2.50
1951	180.8	5.39	2.50
1952	187.7	5.28	2.50
1953	250.6	8.07	3.00

FOR PROFIT AND INCOME

Break-Through

After weeks of backing and filling in a relatively narrow range, with several futile attempts on the upside, the Dow rail average finally got above its February 12 recovery high. This does not necessarily indicate clear sailing for the rail market for any great distance ahead. Some upside breakthroughs by the rail average or the industrial average or both have been followed by substantial further advances, some by slight further advances. Considering the rather long phase of consolidation in rails in the face of poor earnings news, the current narrowing in profit shrinkage from a year ago, and the generally more venturesome mood of the market, there is probably more potential for near-term advance than decline at least in better-grade rails with well-protected dividends. A strategic basis for some selective buying in rails was cited here two weeks ago. Among the best-acting rails at this writing are Southern, Illinois Central, Kansas City Southern, Union Pacific, Atlantic Coast Line, Seaboard Air Line and Denver & Rio Grande Western.

Another Look

Among stocks cited here earlier as good values, there has been a broad advance in Outboard Marine & Manufacturing. It would take nearly a doubling of its $2 dividend—which seems unlikely in view of expansion needs—to put Outboard, priced at 75 at this writing, on a 5% yield basis. The present actual yield is less than 2.7%. Prospects for growth of earnings this year, however, and perhaps for several years, remain good. In this case, as in others like it, whether or not you miss the top, you will never go broke taking big profits. Coca-Cola, heretofore cited as a good investment value, has not yet done much. There is no change in our opinion that it is a good value, probably subject to worthwhile appreciation.

Selection

United Fruit reached a high of 73⅝ early in 1951, following attainment of record earnings of $7.54 a share in 1950. Subsequent persistent decline took it to a low of 44 last autumn, from which it has rallied moderately to 52 at this writing. The stock's fall reflected a two-year shrinkage in earnings to $4.32 a share in 1952, and investment fears generated by expropriation of some of the company's land by the radical Government of Guatemala. The profit shrinkage was due mostly to heavy 1951 storm damage to some major plantations. While wage costs and taxes in some of the countries in which the company operates have risen, this appears to have been largely balanced at the present time by more efficient operations resulting from investment in improved shipping and other facilities. Probably some investors have an exaggerated idea of the importance of the expropriation move in Guatemala. It applied to uncultivated land only. The company retains and is utilizing its banana plantations in Guatemala. If you want to imagine the worst, this acreage is about one tenth of that owned in other Central and South American and West Indies countries. Earnings improved to $5.08

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1954	1953
Florida Power Corp.	Quar. Mar. 31	$ .67	$ .54
Florida Power & Light	Quar. Mar. 31	1.11	.91
Proctor & Gamble Co.	9 mos. Mar. 31	4.18	3.57
Visking Corp.	Quar. Mar. 31	1.35	.92
American Chicle	Quar. Mar. 31	1.14	.83
Lion Oil Co.	Quar. Mar. 31	1.12	.92
Texas Pacific Coal & Oil	Quar. Mar. 31	1.17	1.04
Libbey-Owens-Ford Glass	Quar. Mar. 31	1.25	.76
York Corp.	6 mos. Mar. 31	1.00	.52
Texas Gulf Producing Co.	Quar. Mar. 31	1.24	.72

a share last year. They should equal or better that this year. Finances are strong and liquid. Dividends, generally liberal relative to earnings, have been paid continuously since 1899. Payments, at $3 regular plus extras, have ranged between $3.50 and $4.50 over the last seven years. They should at least equal 1953's $3.50 total this year, and might exceed it. On a $3.50 basis, the current yield is over 6.7%. Despite uncertainties basic to the company's type of foreign operations, the stock has sold considerably higher, relative to earnings and dividends, in most past years, than it does at the present level. The yield is good.

Groups

Among stock groups other than rails, those showing above-average strength in recent trading sessions up to this writing include aircrafts, electrical equipments, finance companies, chemicals, auto parts, biscuit bakers (mainly National Biscuit), dairy products, oils, steel, paper, and tobaccos. Groups recently soft (in most cases extending prior declines), include automobiles with the conspicuous exception of General Motors, air lines, carpets and rugs, variety chains, and textiles.

Mixed

With the averages at an advanced level, it is not surprising that more individual stocks are recording new highs for 1954 or longer than are sagging to new lows. Nevertheless, the latter have recently been more numerous than in some time. The strong stocks are mostly those with improved earnings or with satisfactory, even if somewhat reduced, earnings. The weak stocks are mostly those with poor or disappointing first-quarter earnings which were not adequately allowed for previously in market prices. First-quarter profit comparisons range from modestly to highly favorable for utilities, building materials, aircraft (sharply higher) drugs, electrical equipment (excellent), foods, oils, movies, office equipment, tires, paper and machinery. There were small to moderate shrinkages in such fields as chemicals, steel, metals and mining, and railway equipment; large ones in coal, liquor, farm equipment, textiles and rails. Of these, farm equipments, liquors and rails had made advance allowance in market prices. The first 300 reports issued showed an over-all profit gain of about 3% from a year ago.

Ouch!

What the so far moderate business recession means depends on where you sit. Regardless of recession for others, sales or pre-tax income or both will be higher this year for a number of companies, resulting in higher earnings with or without aid of EPT lapse. Examples include Columbia Broadcasting, Borden, Coca-Cola, Lion Oil, American Chicle and Beneficial Loan; also electric utilities and gas pipe line companies generally. In more cases, among industrials, volume and pre-tax income will be down, but benefit of EPT lapse will either lift earnings or importantly cushion shrinkage. However, in highly competitive lines this so-called mild recession is depression for some companies. That is generally so in textiles. Also in carpets and rugs. It is individually so of secondary companies in lines facing really intense competitive pressure for the first time in some years. A few of the instances in which earnings have "fallen through the floor" or nearly so are Studebaker, Nash-Kelvinator, Crucible Steel and Congoleum-Nairn. Whether or not there is some business revival ahead, and assuming no war, we are in an era in which competitive positions and prospects will require closer investment scrutiny than since before World War II.

Winners

Stocks groups which have advanced most to date from last September's lows are aircrafts, electrical equipment, machine tools, paper, finance companies, tires and oils. Those faring worst on the same comparison are liquor, coal, sugar, textiles, variety chains, tobaccos and secondary auto stocks.

Income And Growth

The distinction between income and growth stocks is not always clear-cut. In at least a few interesting cases, an equity can be called an income-and-growth stock. National Dairy Products is one example. The business is stable in the sense of being highly immune to business recessions. Thus, earnings increased in such recession years as 1938 and 1949. Yet, it is a growing rather than a static business. Comparing 1953 with the prewar year 1937, sales were up 251%, share earnings 202%, dividends 150%. Payments have been continuous since 1924. The rate, now $3, has been raised in six out of the eight postwar years to date. Finances are strong. Earnings rose to $4.63 a share last year, from $4.23 in 1952. With material aid from EPT lapse, they might be in the vicinity of $5.60 to $5.80 this year. In recent years it has been possible to buy the stock on recessions on a yield basis of 5.5% to 6% or so, compared with a yield a little under 4.2% at current price of 71. The market is clearly looking for a dividend boost, possibly also a stock split. On projected earnings and past payout ratios, the dividend might go as high as $3.75 for potential yield of 5.3% at current price. For the reason cited, the stock is widely and increasingly popular with institutional investors; and is likely to sell higher, relative to earnings and dividends, in the future than in the past. It is a "comfortable" stock to own especially for investors who cannot afford an undue degree of risk in their investments.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

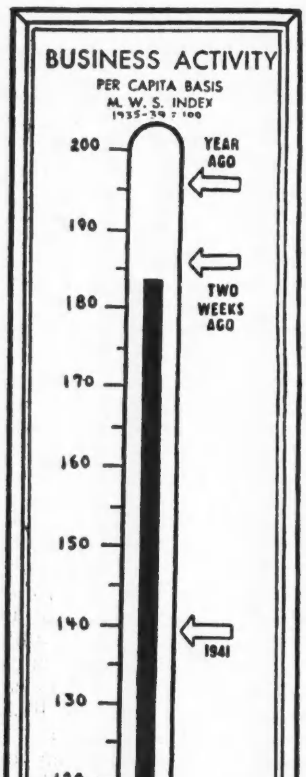
		1953	1952
Chicago, R. I. & Pacific R.R.	Quar. Mar. 31	$1.99	$4.32
General Cigar Co.	Quar. Mar. 31	.17	.29
General Refractories	Quar. Mar. 31	.56	1.12
Mengel Co.	Quar. Mar. 31	.42	.76
National Automotive Fibres	Quar. Mar. 31	.38	1.05
St. Louis-San Fran. Rwy.	Quar. Mar. 31	.32	.93
Budd Co.	Quar. Mar. 31	.33	.74
Erie R.R.	Quar. Mar. 31	.51	1.15
Western Auto Supply Co.	Quar. Mar. 31	.48	.77
United States Lines	Quar. Mar. 31	.05	.81

The Business Analyst

What's Ahead for Business?

By E. K. A.

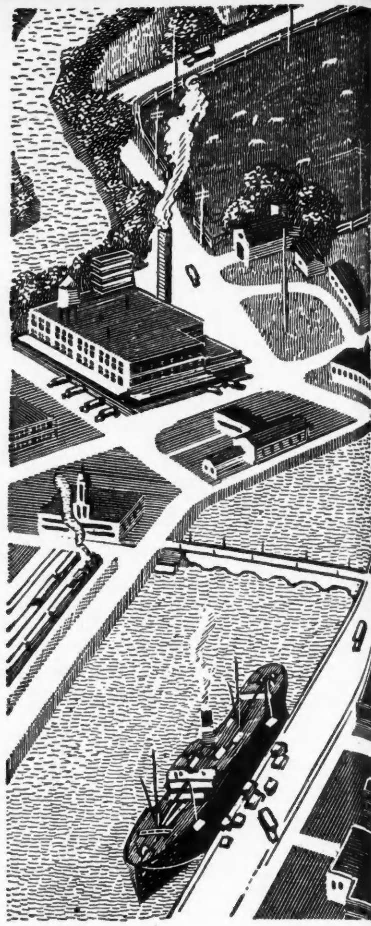
Consumer spending, one of the most important "bulwarks" of our economy, is off a little from a year ago, as measured in the aggregate. But, surprisingly enough, consumers—notwithstanding the numerous uncertainties in the general business situation—are displaying complete willingness to spend as much as they did last year on some items and, in some instances, considerably more.



Travel agencies have been all but overwhelmed with advance bookings. While foreign travel will be at a peak this Summer, public interest also has increased in the "See America" movement. The national parks and historical shrines undoubtedly will attract more tourists than ever before in history. At the same time, the summer resort business is booming. Some of the more popular resort hotels, it is understood, were almost solidly booked through Labor Day shortly after the turn of the year. There is no evidence of any recession in the travel and resort business.

Another important sustaining force is the high level activity in the "replacement markets" for both durable and nondurable goods. Until recently, the belief had been fairly general that, as the wartime pent-up demand for numerous types of consumers' goods was satisfied, business would go into a tailspin. However, the prophets failed to reckon with the strength of the replacement demand.

Improvements in household appliances of all kinds, from refrigerators to dish washing machines, have been so rapid that much of the equipment sold in the earlier postwar years now is definitely "antinque". Prior to the war, the durability of numerous durable consumers' goods practically made them once-in-a-lifetime purchases. For instance, the sparkling new refrigerator of four or five years ago now looks almost as hopelessly old fashioned as the ice boxes of 25 years ago.



Successful manufacturers of numerous lines of consumer durables now are applying the technique of obsolescence to maintain sales volume, following the example that has made the automobile industry in this country a much greater success than in other countries. Were it not for this factor of obsolescence, the decline in new family formations undoubtedly would spell considerable contraction of demand for consumer durables.

The stimulation of replacement demand is not confined to durable goods, of course. Tire manufacturers look for a booming demand for replacement tires this year, even though new equipment sales are down owing to the contraction in motor vehicle production. Emphasis on tubeless and puncture proof tires is great, and is inducing many car owners to make the change-over long before their original equipment is worn out.

This is a big year for the "do-it-yourself" movement. It has been estimated that the weekend carpenters alone will spend some $3 billion for materials and tools this year. The home workshop market now amounts to approximately 50 percent of total power tool sales. Lumber yards, paint stores, and hardware shops are finding it increasingly necessary to cater to the amateur trade, while manufacturers are co-operating with specially designed equipment and materials.

And, the do-it-yourself emphasis is not confined to the building" trades. Amateur interest is increasing in ceramics, oil and water color painting, metal working, hand weaving, and in numerous other types of avocations where less physical exertion is required. Some suburban communities now support stores whose entire concentration is on sales to amateurs.

In the aggregate, consumer spending in some of the less well-recognized areas is tremendous and is furnishing a valuable prop to the overall economy.

The Business Analyst

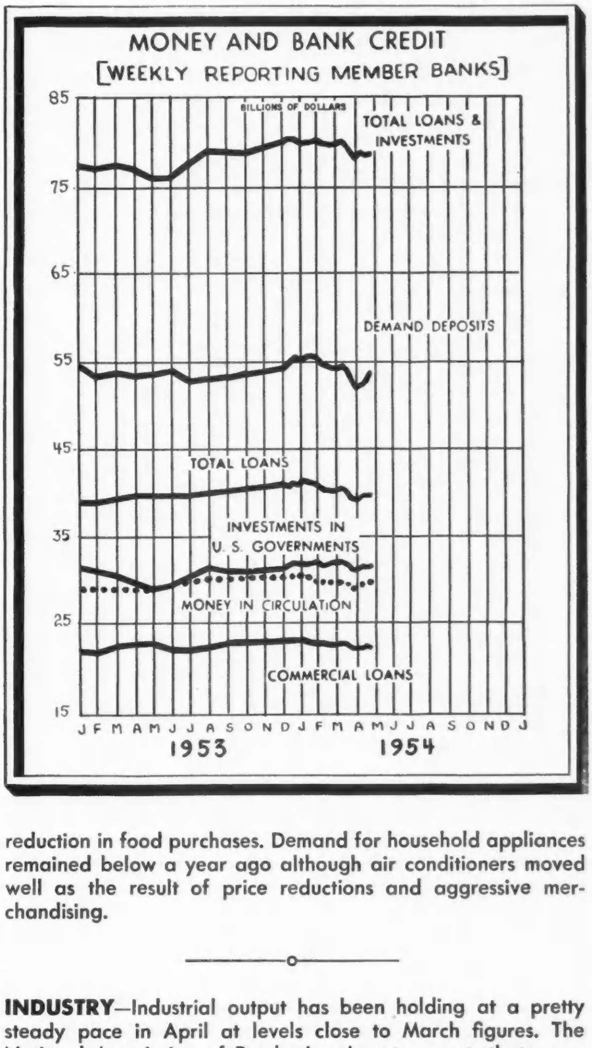
HIGHLIGHTS

MONEY & CREDIT—The Treasurey has just made another one of its periodic trips to market, this time offering short-term obligations in exchange for $2.0 billion of new money and $7.3 billion of outstanding securities. The new money requirements are being met by sale of 4¾ year notes yielding 1⅞%, the lowest coupon, incidentally, for a comparable Government security since October, 1951. As for the $7.3 billion refunding, this involves retirement of $4.9 billion of certificates maturing June 1 and $2.4 billion of bonds either maturing on June 15 or called for redemption on that date. The certificate-holders have been given their choice of either the 4¾ year notes or a new one-year certificate yielding only 1⅛%, while the bondholders—who had received a Treasury exchange offer some time ago but refused it—are limited to the 1⅛% certificate alone, the more restricted treatment in their case apparently being designed to expedite future refundings by convincing holders that first offers should not be turned down.

The Treasury's avoidance of a long-term issue at this time was prompted primarily by its unwillingness to compete with other borrowers as long as business remains in a sluggish state. With a long list of municipal and corporate offerings scheduled to come to market in the near future Treasury competition might give a strong upward impetus to interest costs, a development that the Administration is anxious to avoid. The new financing also reveals that the Treasury is apparently unconcerned about the prospects of an increase in bank deposits, an effect that is inherent in its making the new note issue eligible for purchase by the commercial banks. As the funds received by the Treasury for this issue, are spent, they will re-appear again in the nation's banks as deposits, thus swelling the country's money supply, a development with at least some inflationary potential.

Terms of the new financing, announced by the Treasury on April 30, did not have much affect market-wise. Long-term Treasury issues continued firm in line with the trend since mid-April. Short-term Federal obligations have been strong and borrowing costs on 91-day bills fell to 0.773% on May 3, the lowest level in some six and one-half years. One of the causes for the outstanding money ease in the short end of the market is the decline in private demand for such funds, as evidenced by the contraction in bank loans to business. Corporate bonds have declined somewhat in the two weeks ending May 3 and an average of yields on best-grade corporates rose to 2.87% from 2.85% two weeks earlier. An increase in the number of corporate offerings scheduled to come to market appears to be the cause of the moderate diminution of demand in this sector.

TRADE—Retail sales are running somewhat below a year ago according to most indicators and Dun & Bradstreet estimates that dollar volume for the week ending Wednesday April 28 was about 4% under the corresponding 1953 week. The Northwestern and Southwestern areas had the best showing with a 5% gain over a year ago while the Eastern region had the poorest results with a 6% decline. For the nation as a whole, apparel sales continued high while there was some reduction in food purchases. Demand for household appliances remained below a year ago although air conditioners moved well as the result of price reductions and aggressive merchandising.



INDUSTRY—Industrial output has been holding at a pretty steady pace in April at levels close to March figures. The National Association of Purchasing Agents reports that many companies were able to increase their output last month and this is in line with seasonal expectations. New orders were also somewhat higher while inventory holdings are still being whittled down in many fields.

COMMODITIES—The daily price index of 22 active commodities compiled by the Bureau of Labor Statistics, closed at 92.9% of the 1947-1949 average on April 30, unchanged from levels of two weeks earlier but 5.7% above a year ago. Groups to move higher during the two weeks included industrial commodities and textiles while raw foods, livestock,

(Continued on following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Mar.	3.5	3.5	4.2	1.6
Cumulative from mid-1940	Mar.	544.2	540.7	492.4	13.8
FEDERAL GROSS DEBT—$b	Apr..28	270.1	269.9	264.5	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Apr. 21	53.7	52.9	53.9	26.1
Currency in Circulation	Apr. 28	29.6	29.7	29.8	10.7
BANK DEBITS—(rb3)**					
New York City—$b	Mar.	63.5	62.4	50.4	16.1
344 Other Centers—$b	Mar.	98.9	96.6	95.1	29.0
PERSONAL INCOME—$b (cd2)	Feb.	283	284	281	102
Salaries and Wages	Feb.	190	191	191	66
Proprietors' Incomes	Feb.	50	50	50	23
Interest and Dividends	Feb.	23	23	22	10
Transfer Payments	Feb.	15	15	13	3
(INCOME FROM AGRICULTURE)	Feb.	17	17	18	10
POPULATION—m (e) (cb)	Mar.	161.6	161.3	158.9	133.8
Non-Institutional, Age 14 & Over	Mar.	115.9	115.8	114.8	101.8
Civilian Labor Force	Mar.	63.8	63.7	63.1	55.6
Armed Forces	Mar.	3.4	3.4	3.4	1.6
unemployed	Mar.	3.7	3.7	1.7	3.8
Employed	Mar.	60.1	60.1	61.5	51.8
In Agriculture	Mar.	5.9	5.7	5.9	8.0
Non-Farm	Mar.	54.2	54.4	55.5	43.2
Weekly Hours	Mar.	41.1	41.0	41.3	42.0
EMPLOYEES, Non-Farm—m (lb)	Feb.	47.5	47.8	48.4	37.5
Government	Feb.	6.7	6.7	6.6	4.8
Trade	Feb.	10.3	10.4	10.2	7.9
Factory	Feb.	12.7	12.8	13.7	11.7
Weekly Hours	Feb.	39.5	39.4	40.9	40.4
Hourly Wage (cents)	Feb.	179.0	180.0	174.0	77.3
Weekly Wage ($)	Feb.	70.71	70.92	71.17	21.33
PRICES—Wholesale (lb2)	Apr. 27	111.1	111.3	109.4	66.9
Retail (cd)	Feb.	208.9	209.5	207.8	116.2
COST OF LIVING (lb2)	Mar.	114.8	115.0	113.6	65.9
Food	Mar.	112.1	112.6	111.7	64.9
Clothing	Mar.	104.3	104.7	104.7	59.5
Rent	Mar.	128.0	127.9	121.7	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Feb.	13.9	13.6	14.5	4.7
Durable Goods	Feb.	4.7	4.4	5.3	1.1
Non-Durable Goods	Feb.	9.2	9.2	9.2	3.6
Dep't Store Sales (mrb)	Feb.	0.82	0.79	0.80	0.34
Consumer Credit, End Mo. (rb)	Feb.	27.5	28.1	25.5	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Mar.	23.0	22.0	25.1	14.6
Durable Goods	Mar.	10.3	9.6	12.5	7.1
Non-Durable Goods	Mar.	12.7	12.4	12.6	7.5
Shipments—$b (cd)—Total**	Mar.	24.0	23.6	25.8	8.3
Durable Goods	Mar.	11.4	11.3	13.1	4.1
Non-Durable Goods	Mar.	12.6	12.3	12.6	4.2
BUSINESS INVENTORIES, End. Mo.**					
Total—$b (cd)	Feb.	80.3	80.7	77.7	28.6
Manufacturers'	Feb.	46.1	46.4	44.6	16.4
Wholesalers'	Feb.	11.9	11.8	11.4	4.1
Retailers'	Feb.	22.4	22.5	21.7	8.1
Dept. Store Stocks (mrb)	Feb.	2.2	2.3	2.3	1.1
BUSINESS ACTIVITY—1—pc	Apr. 24	184.3	185.9	196.7	141.8
(M. W. S.)—1—np	Apr. 24	229.1	231.0	240.0	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 243)

metals and fats and oils sought lower levels.

The MWS price index of 14 raw materials held steady in the last half of April, closing at 152.7 on April 30 as against 152.6 on April 15. Corn, cotton, silk, wool tops, rubber and hides were higher at the month-end while wheat, sugar, iron and tin were lower.

97,000 **NEW HOMES** were started in March, a 33% gain over the short February month, although still under the 105,800 housing units begun in March, 1953, the Labor Department has reported. The February-March increase was confined entirely to private building which rose by 24,000 units, biggest February-March gain in four years. On a seasonally adjusted basis, private starts in March were at an annual rate of 1,161,000, almost the same as a year ago. The March results brings total housing starts in the first quarter of 1954 to 236,000 units or 8% under the corresponding 1953 period. The decline was mainly due to a sharp drop in public housing activity which fell from 19,000 units begun in the first three months of 1953 to only 3,700 in this year's similar period.

* * *

New orders for **MACHINE TOOLS,** in March, continued far below shipments, according to data form the National Machine Tool Builders Association, which reports that incoming orders last month amounted to $50.1 million. This is a little above February but way under the $95.0 million worth of new orders booked in March, 1953. Machine tool shipments in March were almost double the level of incoming orders and were valued at $94.8 million. Machine tool output remains at high levels while order backlogs are slipping. It would have taken 4.6 months at current production rates to fill all orders currently on the books. This compares with 5.1 months in February and 8.5 months in March, 1953.

* * *

BUSINESS FAILURES rose 19% in March as 1,102 firms closed their doors, the largest number of casualties since May, 1941. Dun's Failure Index, which is seasonally adjusted and projected on an annual basis, increased to a rate of 44 for each 10,000 companies listed in the firm's Reference Book. This compares with a rate of 40 in February and 30 in March, 1953.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—la np (rb)	Mar.	123	124	135	93
Mining	Mar.	112	112	115	87
Durable Goods Mfr.	Mar.	135	139	155	99
Non-Durable Goods Mfr.	Mar.	113	113	119	89
CARLOADINGS—t—Total	Apr. 24	626	613	780	933
Misc. Freight	Apr. 24	337	342	395	379
Mdse. L. C. L.	Apr. 24	62	62	70	66
Grain	Apr. 24	42	41	42	43
ELEC. POWER Output (Kw.H.) m	Apr. 24	8,257	8,345	8,016	3,266
SOFT COAL, Prod. (st) m	Apr. 24	6.8	6.7	9.0	10.8
Cumulative from Jan. 1	Apr. 24	116.1	109.3	140.5	44.6
Stocks, End Mo.	Feb.	75.2	75.7	73.3	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Apr. 24	6.6	6.6	6.3	4.1
Gasoline Stocks	Apr. 24	178	179	157	86
Fuel Oil Stocks	Apr. 24	44	43	39	94
Heating Oil Stocks	Apr. 24	59	57	61	55
LUMBER, Prod.—(bd. ft.) m	Apr. 24	255	256	266	632
Stocks, End Mo. (bd. ft.) b	Feb.	9.2	9.1	8.2	7.9
STEEL INGOT PROD. (st) m	Mar.	7.3	7.1	10.2	7.0
Cumulative from Jan. 1	Mar.	22.3	15.0	29.0	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Apr. 29	241	248	288	94
Cumulative from Jan. 1	Apr. 29	3,906	3,665	5,144	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Apr. 24	199	210	184	165
Cigarettes, Domestic Sales—b	Feb.	27	32	32	17
Do., Cigars—m	Feb.	444	412	453	543
Do., Manufactured Tobacco (lbs.)m	Feb.	16	15	15	28

PRESENT POSITION AND OUTLOOK

LIABILITIES of failing firms kept pace with the increase in the number of failures and amounted to $57.3 million in March, up 20% from February and 84% above March, 1953.

The rise in failures has not daunted those starting new businesses, and **NEW INCORPORATIONS** of 10,514 firms were registered in March, the biggest for any month since 1948 and 8.9% ahead of March, 1953. The cumulative total for the first three months of this year rose to 28,590 new corporations brought into being, a 5.6% gain over the similar 1953 period and the biggest quarterly total since 1947.

* * *

SALES OF PASSENGER CARS to consumers approximated 461,000 units in March according to an estimate by R. L. Polk & Co., which is based on registrations from almost one-half the states. This would be a sales increase of 90,000 units over February, although below the 486,368 new car registrations of March, 1953. Domestic **FACTORY SALES** of new passenger cars to dealers in March totalled 545,961 units, which is quite a bit above the rate of dealer sales to consumers and indicates that car stocks in dealers' hands at the end of March had risen further.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

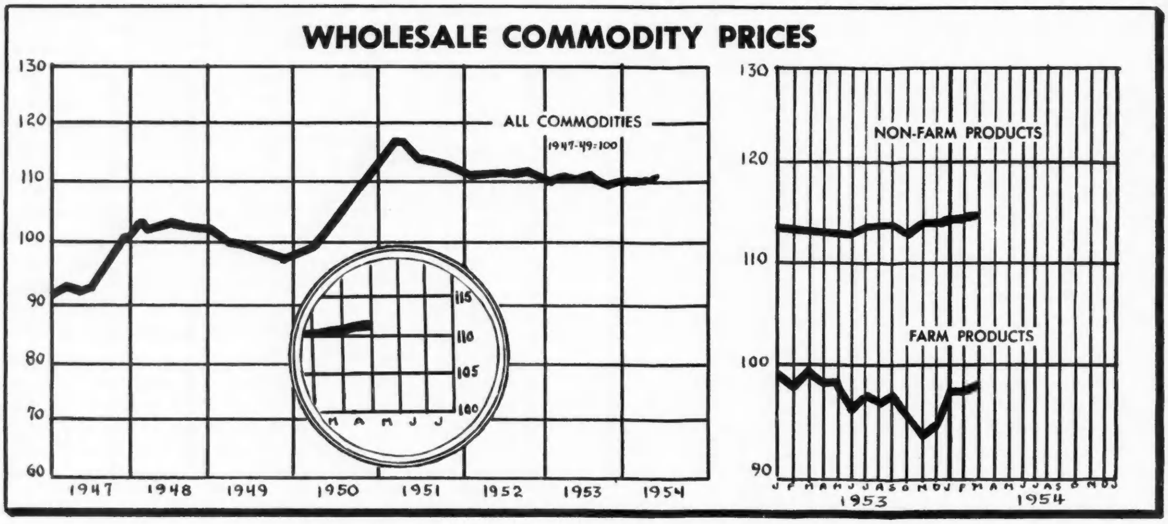
No. of Issues (1925 Cl.—100)	1953-'54 Range High	Low	1954 Apr.23	1954 Apr. 30
300 COMBINED AVERAGE	215.5	177.2	212.7	213.3
4 Agricultural Implements	263.3	179.0	205.9	205.9
10 Aircraft ('27 Cl.—100)	551.5	330.3	551.5	543.3
7 Airlines ('27 Cl.—100)	693.9	492.6	536.9	532.0
7 Amusements	106.5	76.4	105.7	106.5
10 Automobile Accessories	289.4	213.8	250.6	245.9
10 Automobiles	49.4	38.4	39.6	38.4Z
3 Baking ('26 Cl.—100)	28.0	23.0	23.7	23.2
3 Business Machines	432.6	311.4	418.5	432.6A
2 Bus Lines ('26 Cl.—100)	254.7	170.2	245.4	254.7A
6 Chemicals	398.8	337.9	391.5	395.2
3 Coal Mining	15.4	9.0	10.7	10.4
4 Communications	69.3	58.6	66.9	66.9
9 Construction	77.7	57.9	77.1	76.5
7 Containers	588.6	456.9	583.7	583.7
9 Copper & Brass	175.4	125.3	164.0	162.6
2 Dairy Products	110.3	82.3	108.3	110.3A
5 Department Stores	63.3	54.6	62.8	62.8
5 Drug & Toilet Articles	265.9	203.8	261.1	265.9A
2 Finance Companies	478.6	341.8	478.6	478.6
2 Food Brands	202.2	185.0	200.3	202.2A
2 Food Stores	140.9	113.0	139.6	140.9
3 Furnishings	79.2	59.6	65.5	64.9
4 Gold Mining	760.0	502.3	602.8	607.8

(Nov. 14, 1936, Cl.—100)	High	Low	1954 Apr.23	1954 Apr. 30
100 HIGH PRICED STOCKS	141.6	114.4	139.8	141.6A
100 LOW PRICED STOCKS	260.5	203.7	244.4	243.9
4 Investment Trusts	114.1	93.1	113.1	114.1A
3 Liquor ('27 Cl.—100)	967.8	811.1	822.9	814.3
11 Machinery	246.7	181.0	238.6	246.7A
3 Mail Order	128.6	101.0	117.7	120.9
3 Meat Packing	101.7	78.7	87.4	87.4
10 Metals, Miscellaneous	284.5	198.4	257.3	257.3
4 Paper	586.0	394.9	576.8	586.0A
24 Petroleum	496.9	376.5	488.8	496.9A
22 Public Utilities	210.0	173.8	208.0	210.0
8 Radio & TV ('27 Cl.—100)	36.9	27.6	30.4	29.8
8 Railroad Equipment	64.1	49.1	54.3	55.3
20 Railroads	53.2	41.8	45.1	46.4
3 Realty	59.2	42.3	58.2	59.2A
3 Shipbuilding	333.7	228.7	324.9	333.7A
3 Soft Drinks	433.3	339.0	429.5	425.7
11 Steel & Iron	151.4	122.8	148.1	150.7
3 Sugar	59.8	45.9	52.8	52.3
2 Sulphur	677.1	525.5	666.4	677.1A
5 Textiles	162.2	101.3	102.3	101.3
3 Tires & Rubber	100.1	70.4	98.4	98.4
5 Tobacco	105.2	81.1	82.8	84.5
2 Variety Stores	319.5	274.4	277.2	274.2Z
16 Unclassified ('49 Cl.—100)	125.7	97.0	116.6	115.6

A—New High for 1953-'54. Z—New Low for 1953-'54.

Trend of Commodities

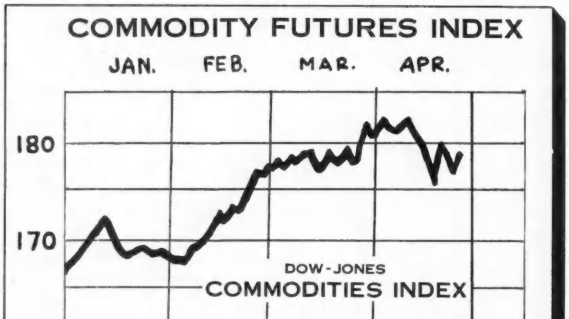
Commodity futures experienced some heavy selling in the two weeks ending May 3 and some wide price declines were witnessed. The Dow-Jones Commodity Futures Index closed the period at 176.69, a 3.96 point decline from its close of April 19. Attempts at Geneva to arrange a cease-fire in Indo-China appeared to be a factor in the price weakness while indications that some Congressmen will fight attempts to extend rigid price supports also brought in selling. Wheat was especially weak during the period and the May future lost 15 cents to close at $2.00 even. Special factor affecting this commodity has been the exceptionally favorable weather which has improved crop prospects considerably. Estimates of domestic wheat consumption have been reduced and exports are expected to approximate 200 million bushels, the smallest since 1944. May corn lost 1¾ cents in the two weeks ending May 3 to close at 151¾. Total supply of corn on April 1 was almost 200 million bushels above a year ago while the outlook for the new crop is good. These factors plus CCC offerings have been offsetting the effects of the Government loan and the good outlook for consumption. Cotton was one of the few commodities to buck the downtrend and the May option gained 52 points to close at 34.56 cents. Exports are running way above a year ago although domestic consumption is slow. Large amounts of cotton have been placed in the loan and there is not much inducement for farmers to make repossessions at current price levels. May lard lost 3.60 cents in the fortnight to close at 18.70 cents. The decline occurred in the face of low output and small inventories of the commodity but talk of a larger pig crop in the offing unsettled trading sentiment.

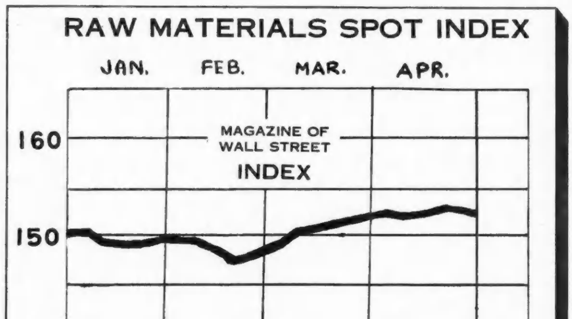


U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

	Date Apr. 30	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	92.9	92.9	87.4	87.5	53.0
9 Foodstuffs	102.4	103.6	96.1	88.3	46.1
3 Raw Industrial	86.7	86.0	81.8	86.9	58.3

	Date Apr. 30	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
5 Metals	93.3	94.2	82.3	95.7	54.6
4 Textiles	87.0	86.7	88.1	88.6	56.3
4 Fats & Oils	75.3	76.6	72.7	59.2	55.6





14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	162.2	181.2	215.4	111.7	88.9	67.9	57.7	86.6
Low	147.8	160.0	176.4	98.6	58.2	48.9	47.3	54.6

Average 1924-26 equals 100

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	181.9	192.5	214.5	95.8	74.3	78.3	65.8	93.8
Low	153.8	168.3	174.8	83.6	58.7	61.6	57.5	64.7

1954 First Quarter Earnings

(*Continued from page* 218)

the major companies came out much better in the first quarter than did the lesser concerns. This is true to a lesser extent of the automobile companies, also reviewed separately in this issue.

The conclusion may be drawn that so far as manufacturing companies are concerned, results in the second quarter should be similar to those obtained in the first quarter. The major companies should be able to maintain earnings close to those of the first quarter but those lesser companies which have shown the effects of pressure on their earnings to a relatively marked degree may have difficulty in materially reversing the trend unless general business conditions improve sufficiently to provide them with substantial overflow of business from the larger concerns. This can only come about with a revival of the exceptionally active conditions of a year ago.

This survey is limited only to the manufacturing companies. In an early issue, we expect to review the railroads and, soon after, the public utility industry.

We present herewith a brief analysis of first quarter earnings of a number of companies representing a good cross-section of industry.

U.S. STEEL CORP. Despite a $97 million drop in sales for the first quarter of 1954, as compared with the corresponding period last year, earnings held up remarkably well. Sales declined from $927 million to $830 million but earnings of $1.48 a share for this year's initial quarter were not far off from the $1.65 a share shown last year. The fact that earnings did not drop materially is due to the cushioning effect of the lapse of EPT which last year cost the company $2 a share for the full year and about 53 cents a share for the first quarter. Additionally, there was a considerable reduction in operating costs, due in part to lower costs for material, labor, and, in part, to the increased utilization of the more efficient and economical plants. This latter is a factor of great importance in a period of lower sales as it tends to maintain profit margins on a more satisfactory basis than if operations were distributed among the older plants as well as the newer. The corporation operated at close to an 80% rate for the quarter as against a lower level for the industry, as a whole. Assuming that the decline in incoming business is now leveling off, it would appear that operations for the second quarter should more or less approximate those of the first. On that basis, the company would earn close to $3 a share for the first half, as against $3.54 a share for the corresponding period of 1953.

GENERAL ELECTRIC CO. This company's report illustrates the marked difference which the lapse of the excess profits tax has made to the earnings of many important corporations. Despite an 8% decline in sales in the first quarter of 1954 as compared with the same period last year, net profits increased 42%. Sales dropped from approximately $777 billion to $715 billion. At the same time, however, earnings for the quarter increased to $1.67 a share compared with $1.17 a share. There was a $14 million drop in income taxes for the period and the $24 million in excess profits taxes paid during the first quarter of 1953 was eliminated. Costs of operation declined about $35 million. Since part of the drop in operating costs was absorbed by the difference in sales, it will be seen that the chief factor in raising earnings was the ending of EPT. In this particular case, the elimination of this tax would have theoretically made a difference of slightly less than 70 cents a share but, of course, the savings was much less on the lower sales. The greatest part of the decline in sales was due to a smaller volume of defense orders, commercial sales declined only 3%. Since the company normally earns a larger margin of profit on commercial than on defense business, it is anticipated that, with the ending of EPT, earnings this year will compare favorably with those of 1953, when $5.75 a share was earned. This estimate is based on expectation that the company's commercial sales will hold up well for the balance of the year. According to the company, defense business will amount to about 20% of the total during the next several years.

ARMSTRONG CORK. CO. Earnings advanced in the first quarter of 1954 as compared with the coresponding period last year despite a drop of approximately 5% in sales. Net per share increased 8%, or from $1.64 to $1.72 a share. The increase was facilitated by the elimination of the excess profits tax. Last year, EPT was equivalent to 86 cents per share. Information on the exact amount of EPT savings for the quarter is lacking but presumably has accounted in part for the 8% increase in net. The sales trend has been relatively satisfactory though at lower levels than in the early part of 1953. It will be noted that the company made a gain in sales from the final quarter of 1953. High volume of building construction would seem to indicate good prospects for sales of floor coverings and other special products related to the field. Significant progress is being made in the packaging division; an increasing source of sales. Industrial operations will be affected to some extent by conditions in the automobile industry. This remains the chief uncertainty so far as sales are concerned. On the whole, there is no reason to believe that the company cannot maintain earnings at a relatively satisfactory rate for the balance of the year. In 1953, it earned $5.84 a share.

CORN PRODUCTS REFINING CO. Sales for the first quarter were practically on a par with the corresponding period of last year, amounting to about $46 million. This was equivalent to slightly more than a 15% pre-tax margin of profit compared with slightly less than a 16% profit margin. After taxes, net profit margin for the quarter was about 8%, roughly the same as the previous year's first quarter. Earnings for the corresponding quarters were $1.22 and $1.25 a share. It is understood that both domestic and foreign sales are holding up well and the new German plant, put into operation last January, is expected to increase revenues from that country. With adequate supplies of raw materials, in addition, to a favorable cost basis, it is expected that

(*Please turn to page* 258)

Important New Company Developments in Atomic Power

(*Continued from page* 217)

Republic Steel Enters Field

We present, in the accompanying compilation, brief comments on these late events and, in keeping with the purpose of this article, a more detailed description of recent outstanding developments, one of which is *Republic Steel Corp.'s* entry into the atomic energy field to study and develop the use of nuclear materials in the operation of steel plants and in the production of steel on a broad base. It believes nuclear physics have vast possibilities for the industry. The development of a nuclear power plant which could support the expanding need for power of the mills and electric furnaces would be a great step in the direction of efficiency and operating economies.

Perhaps the most far-reaching project is that involving the construction of the nation's first full-scale plant for generating electricity through use of atomic energy. This new plant is a joint venture of the Atomic Energy Commission and the *Duquesne Light Co.*, which has long served the Greater Pittsburgh area and surrounding territory with electricity. It will mark the first attempt to utilize, on a commercial scale, the energy of the atom for peacetime use and it is expected that sometime in late 1957, its output, rated at a minimum of 60,000 kilowatts will be flowing through the Duquesne company's transmission lines to its residential and industrial customers.

Construction of the plant will start as soon as a formal contract between the AEC and Duquesne Light is signed. Under the agreement, Duquesne will provide a site for the plant on land now owned by the company in the Greater Pittsburgh area and will build, at its own expense, the generating facilities to take the heat produced by the nuclear reactor for the production of steam powering the turbines. The nuclear reactor will be designed and built by *Westinghouse Electric Corp.*, which has already built several reactors of various sizes for the AEC, including that to power the "Nautilus", the first atom-powered submarine constructed by the Electric Boat Division of the *General Dynamics Corp.*

It is estimated that the reactor for the Duquesne Light's new plant will cost something like $30 million. Duquesne will pay $5 million of this amount with the AEC contributing the balance. It should be borne in mind that this atomic powered electric generating plant is a new venture. It is not expected that it will produce power at costs competitive with power generated through use of conventional fuels, although Duquesne's customers will pay no more for electric energy generated through the new facilities than they pay for that of the older plants. Under the contract with the company, the AEC will absorb the extra production costs, recognizing that the initial operation of the new Duquesne plant will require research and experimentation of vital importance in reaching the goal of cheaper and more abundant power.

Forerunner of Other Plants

Equally important is the fact that this new Duquesne plant when in operation will be the forerunner of a new commercial source of electric energy that is essential if this nation is to sustain the current phenomenal rate of increase in the use of electricity. Within the last 9 years, output of our electric system has almost doubled and it is estimated that a still greater amount of electric energy will be necessary if the expansion of industry, the growth of agriculture is to be made possible, and a high standard of living is to be maintained. Predictions are that within the next two decades we may be using twice as much power as at present and the continued steady uptrend in demand in this country and throughout the world poses the question as to whether supplies of conventional fuels will remain adequate to the needs of this great expansion. Apparently, the Atomic Energy Commission weighing all the potentials, and evidently the Duquesne plant is to be followed by others. In this connection it is understood that present plans of the Commission provide for the start, after 1955, of several additional reactor projects, possibly one a year, depending on development progress.

In any event, the Duquesne plant, when in operation, will mark the first step in making available electric power generated through nuclear energy for industrial and residential use. It is reasonable to believe that progress in this direction will be more rapid and that atomic power will come into increasing use in many other fields.

Leading the way in the latter category is the launching of the "Nautilus" last January, which will be powered by a nuclear reactor designed and built by Westinghouse Electric Corp. Now the Navy has authorized the *Newport News Shipbuilding & Drydock Co.*, to continue studies, at Navy expense, on the use of nuclear power for the propulsion of large ships which will be a joint undertaking with *The Babcock & Wilcox Co.*, under an agreement entered into by the latter with the Atomic Energy Commission. Babcock & Wilcox has, in the past, designed and fabricated a considerable amount of atomic energy equipment for use in AEC laboratories and military installations, in addition to being a member of the *Dow Chemical-Detroit Edison Nuclear Power Project.*

It is well within the realm of possibility that ships, both naval and merchantmen, are fast approaching the time when they will be propelled by nuclear energy. The "Nautilus" pointed the way, and is soon to be followed by the "Sea Wolf" which will be equipped with a reactor designed and built by *General Electric Co.* Undoubtedly, the Government will leave nothing undone that will bring into existence a reactor to power its surface naval ships, freeing them from dependence on oil as a fuel and enabling them to circumnavigate the globe without the necessity of refueling at a port of call or on the high seas. A fleet of fighting ships such as these would add immeasurably to our defensive and offensive strength.

Also under study is an atomic powered locomotive as well as a "power package" reactor of 1,000 kilowatts electrical output. The AEC is interested in the latter for use at a remote Army base. This would be a type of reactor that could be loaded with fuel and operated for five years without refueling, and would be so designed that no part would be too large to be moved from one re-

(*Please turn to page* 252)

To the Ten Million Owner

A Message from

NOW, the merger of the Hudson Motor Car Company and the Nash-Kelvinator Corporation has become an accomplished fact.

This news is of special significance to all who today own Hudson and Nash automobiles, Kelvinator and Leonard appliances—and who will own them in the future.

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To Hudson, Nash, Kelvinator, Leonard and ABC Owners Past—Present—and Future

You, more than anyone else, are entitled to know these facts—

The priceless identity of Hudson, Nash, Kelvinator

Important New Company Developments in Atomic Power

(*Continued from page* 248)

mote site to another by air transport. Congress has been asked for authorization to proceed with the letting of a contract on a competitive basis for its construction. It is understood that more than 20 concerns have expressed an interest in getting the job which is indicative of how far we have gone toward putting the building of nuclear reactors on a commercial basis.

Atomic Power on Commercial Basis

This opens up an entirely new field for industry. Westinghouse Electric Corp., in anticipation of rapid development in this field has completed construction of a building to house its Atomic Equipment Department which is expected to play an important role in the company's plans for making and selling atomic power plant equipment and related apparatus on a commercial basis. It was off to a good start in this respect. As has been already mentioned, Westinghouse designed and built the "Nautilus" nuclear power plant and is scheduled to design and build the reactor for Duquesne Light's proposed atomic powered electric generating plant.

Other manufacturers are looking in the same direction, especially in view of the AEC's 5-year program that is based on the assumption that the law will be changed to make industrial participation in reactor development work more attractive. Through this program, AEC hopes that the new technology expected to be developed "will encourage industry to take over an increasing share of the financing and further research and development and to consider with increasing favor the actual construction of pilot or full-scale power plants".

It can be expected that General Electric Co., will endeavor to assume a foremost position as a supplier of equipment and apparatus in this field. GE is under contract to supply the atomic engine to be installed in the "Sea Wolf" now on the ways at General Dynamic's Groton yard, and would like to get deeper into various phases of atomics. It is now managing the great Hanford Works for the AEC, and has recently proposed the development of facilities at the plant to produce electric power and an increased volume of plutonium.

General Dynamics Corp., is also expected to develop more actively in the field of atomics. Its Electric Boat Division has been engaged in supplemental work for the AEC's projects at Hanford and Oak Ridge, and now that the company has completed its merger with *Consolidated Vultee Aircraft* on May 1 of this year, it is likely that it will be able to move more swiftly in nucleodynamics. Consolidated Vultee, or Convair as it is sometimes referred to, received the first order given by the Air Force to design and build a nuclear-powered airplane, although it is understood that work on this project is being held in abeyance pending development of a satisfactory and efficient power plant. Meanwhile, Convair continues research and development work along these lines. The fact that General Dynamics has recently created a new subsidiary, the General Atomic Corp., indicates, to some extent, the company's plans to broaden its interests in the atomic field.

North American Aviation Co., active in atomic energy developments since 1946, has apparently moved so far along in the designing and building of research reactors that it has published an atomic energy "catalogue", the first in the nuclear field. It now offers to design and build several types of reactors to meet specialized nuclear research requirements, subject to AEC approval where required, for any educational, medical, research, or industrial group. Under a contract with the AEC, North American Aviation is expected to soon begin construction of a pilot reactor plant which it will also operate upon completion in 1956. This will be a "breeder" type of reactor for the production of plutonium and will not be equipped for generating electricity. Under the agreement, the company and AEC will share the cost of the project, North American paying \$2.5 million and AEC putting up the balance of approximately \$7.5 million. The purpose of the pilot plant is to test out the feasibility of a full-scale operation for which North American has the preliminary drawings on its designing boards.

Dow Chemical—Detroit Edison Combination

In the midst of all this progress the 26 companies making up the Dow Chemical-Detroit Edison Atomic Power Development Project continue their studies under a new agreement entered into recently with the Atomic Energy Commission. The main objective of this group is the development of a new source of heat energy—nuclear fuels—to compete commercially with conventional fuels for the economical production of electric power, and the production of a high-grade by-product fuel. The group is of the opinion that if it can carry the development forward to the point of real promise of producing competitive power and fuel, it can expect to build a full-scale reactor, using private capital and without Government subsidy. It is presently estimated that the engineering and economic feasibility of the work will require at least two years' effort and possibly more. Under the agreement the companies associated in the project are preparing to spend more than \$2.5 million of private funds in 1954, with a similar amount to be expended for next year's work.

The relatively rapid progress now being made in the development of nuclear reactors has aroused the world to search for deposits of uranium and other fissionable materials and in the production of plutonium which is produced in a reactor, using uranium as a raw material. Although uranium is plentiful in the earth's crust, large commercial deposits are comparatively rare. The AEC is currently purchasing all the uranium oxide offered to it, paying \$3.50 a pound for each pound of ore containing 0.2% of uranium oxide. Higher grade ores bring a proportionately higher price, the price scale descending to \$1.50 a pound for ore containing 0.1% uranium oxide.

Up to the present time no large high-grade deposits of uranium have been uncovered in the U. S. although numerous small deposits have been found in several of the western states. Several companies are now mining, or planning to produce uranium from these sources. Among these is the *Climax Molybdenum Co.*, through its subsidiary, the Climax Uranium Co.

that began producing in 1951, and which holds a classified contract with the AEC for its entire uranium production for a period of years. *Vanadium Corp.*, also holds uranium properties in several of the western states and was recently reported to be planning enlarging its 35-ton per day pilot mill to 150 tons upon negotiating a satisfactory contract with the AEC. *Union Carbide & Carbon Corp.*, through its subsidiary, U.S. Vanadium Co., is also active in the production of uranium from deposits of the Colorado Plateau, an area of about 65,000 square miles reaching into Colorado, Utah, New Mexico and Arizona. There are many others and these will undoubtedly be added to from time to time as new uranium discoveries are announced. It was only last January when *Lehigh Coal & Navigation Co.*, announced that uranium had been discovered near Mauch Chunk, Pa., and that it planned to start mining on an exploratory basis as quickly as possible.

What may prove the most productive and dependable source of uranium in this country are the phospherous deposits in Florida, Wyoming, Montana and Idaho. Several of the chemical companies are already supplying the AEC with uranium extracted as a by-product from phosphate rock. *Blockson Chemical Co.*, generally regarded as the first phosphate producer to extract uranium was soon followed by *International Minerals & Chemical Corp.*, whose new plant near Bartow, Florida, is reported to be operating 24-hours a day turning out uranium concentrate. It is expected that *Virginia-Carolina Chemical* soon will be extracting uranium through this process at its Nichols, Fla., plant. Although the uranium content of phosphate rock is small, the huge reserves of this rock in the several areas of the U. S., represent the biggest known deposits of uranium in the nation.

We think it would be well to emphasize that the growth of atomic energy is beginning to proceed at a comparatively fast pace. Admittedly, the greatest results for investors will flow from participation through ownership of the right companies and should be considered from a long-range viewpoint. However, the possibilities are so striking that consideration of investments in this field should not be too long deferred.

How Will Mexican Currency Devaluation Affect U.S. Trade?

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United States a great variety of products but wishes to expand this trade. Metals lead as a general category but inflated costs of products and export taxes have cut profits of much Mexican mining. Lead, copper and zinc are among the important metal exports. In 1953 the copper imports from Mexico were valued at $39 million and lead at $35.3 million. The figure for zinc was not large but varies from year to year. It was valued at $6.4 million last year. Manganese imports from Mexico reached $4.2 million. With all the tremendous domestic production in the United States we imported from Mexico in 1953 petroleum and products to the value of $23.8 million. Of this about half—$12.8 million—was residual oil.

In dollar values the largest single item imported from Mexico in 1953 was coffee. The value was $68.7 million. Vast numbers of cattle have been imported from Mexico but recently quarantines against foot-and-mouth disease have interfered much. However, in 1953 the figure for cattle was $9.3 million with another item of $6.5 million for meat products while fish and fish product imports amounted to $1.2 million.

Mexico's frozen food industry, especially along the border has been growing apace. Imports of fruits and vegetables, fresh and frozen, make a substantial category. In 1953 some of the figures are $14.8 million for tomatoes; $6.2 million for fruits including citrus; and peppers, $1.6 million.

Mexico has long been a source of fibres and in 1953 imports of cotton amounted to $8.2 million and sisal, $5.2 million. Mexico does manufacture twine and the imports last year reached $9 million on top of the figure for the raw sisal. In timber, Mexico is rich and finds a market in the United States for valuable hardwoods especially and also for such products as logwood. The import figure last year was $10.6 million.

It would be stange indeed if the devaluation of the peso did not affect this trade to some extent but with the increasing retail prices on all goods in Mexico it is doubted if there is to be any great increase in the volume of tourist travel and sojourn. At first, early American visitors buying so many more pesos for their dollars doubtless will enjoy an advantage especially if they keep away from the larger cities.

An interesting aspect is that Mexican business men are looking forward to the Mexican-American Trade Fair which will open in Mexico City about the middle of October. If the devaluation development is to have any effect on the plans for the Fair it is thought it will be favorable. American firms have made extensive reservations for the showing of their goods and perhaps the devluation will encourage an even greater participation.

1954 Outlook for Steel Industry

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in a long stubborn strike, since the industry is resolved to resist it. Mr. McDonald has intimated that he might not be adamant about the annual wage demand this year. It seems he would prefer to let his arch-rival, Walter Reuther, President of the CIO as well as of the United Auto Workers, attempt to plow new ground next year in the collective bargaining field. The latter has answered he is determined to demand an annual wage from the major auto companies in 1955.

It seems likely that Mr. McDonald will be willing to settle this year for a small wage rise—5 to 8 cents, plus improvement in pension benefits. This entire package would cost about 8 to 10 cents an hour. In the past, steel executives have said that each penny of labor costs requires an offsetting price rise of about 40 cents a ton. A price rise of $3 to $4 would be needed to offset the indicated settlement price in steel.

With operations running at 68 to 70 per cent of capacity, steel companies will do everything they can to hold labor costs down.

They have a high regard for Mr. McDonald as a labor leader, but they will approach wage negotiations cautiously because at current levels of output, history says that the industry would not be able to pass along the higher costs in the form of a price rise. Close and lengthy bargaining can

be looked for, rather than a quick settlement, and at some point consumers may become apprehensive about the outlook for a settlement and may stop cutting their inventories. If that happens, steel operations will rise quickly, for a brief period, at least. If a strike results, or if steel buying improves, the industry would find it comparatively easy to pass along the increase in costs.

Despite the drop in earnings during the first quarter, the major steel producers with one or two exceptions, earned their dividends by a very comfortable margin. U. S. Steel, for example earned $1.48 a share, or nearly twice the amount of the dividend. In Bethlehem's case, the usual $1 dividend, paid for many quarters prior to the $2 dividend voted in January, was supplanted at the end of April by a $1.25 dividend. This was not designated as a new higher regular basis, and Eugene G. Grace, board chairman of Bethlehem said that no significance should be attached to it. Nevertheless, in view of Bethlehem's net profit of $2.73 a share in the first quarter, and the likelihood that earnings during the rest of this year should cover the $1.25 rate easily, it appears likely that Bethlehem is entering a period during which stockholders can expect a higher return than the $4 paid last year.

Most of the major steel companies have a strong working capital position. This is being maintained, moreover, not only by the margin of current earnings over the indicated profits for this year, but by exceptionally high charges for accelerated depreciation as well as regular depreciation and depletion.

The charges for accelerated depreciation are now at their peak, because of the launching of so many facilities during the last year or two. Under the five year amortization rule, charges at the rate of 20 per cent a year on these new plants will remain at the top rate for another year or two and then begin to taper off. As against charges of $58.8 million in the first quarter of last year for wear and exhaustion of facilities, U. S. Steel charged $64.3 million in the first quarter of this year, reflecting higher charges for writing off the new Fairless Works and other big facilities. Inland Steel's provision for depreciation and amortization was $4.4 million this year, against $3.8 million.

These accelerated depreciation costs are actually becoming onerous to companies whose net has declined, and which wish to make a good earnings showing, to improve their investment rating. For example, Jones & Laughlin Steel announced that it reported earnings of 88 cents in the first quarter, against 85 cents in the same quarter of last year. But Admiral Ben Moreell, chairman of J. & L., said that the earnings this year would have declined to 55 cents a share, if it had not revised its book-keeping.

The investment program of the steel industry this year, while not as large as last year, is still substantial. The steel companies

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1954 Outlook for Steel Industry

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estimated early this year that they would spend \$750 million for new plants and facilities this year, as against over \$1 billion last year. But the figures for both years do not include heavy investments by companies which are developing taconite or other ore resources. For example, three steel companies have stock investments in Erie Mining, which is investing \$350 million in a taconite ore program. These investments do not show up in the capital spending program of the industry.

Steel capacity stands at 124 million tons of ingots and will be increased by only 2 or 3 million tons in the next year. This capacity is temporarily excessive, but in light of the growth of population and widened uses for steel, is not out of line with the indicated demand over the next five to ten years.

With depreciation charges running at such a high level, and with dividend payments still less than earnings by a comfortable margin, the major steel companies are in a position to pay for the reduced investment program out of current operations, without resorting to financing.

One or two companies which still have to do considerable construction this year, may find it necesary to do some financing, but on balance, the industry is over the hump on its investment program, and should be accumulating cash from now on unless business shows an unexpected drop. U. S. Steel, for example, showed net current assets of \$343 million on March 31, 1954 against \$300.8 million on March 31, 1953, a gain of \$43 million. Bethlehem's working capital rose \$12 million to \$414 million in the first quarter.

In some cases, the ability of the company to sustain earnings has been so gratifyingly good, that investment programs are being increased a little over estimates made at the beginning of the year. Many of these new projects involve cost cutting rather than capacity expansion. But such tendencies to spend more would be qiuckly restrained if earnings were to prove less than expected. The industry from now on will follow a more flexible policy, on plowing money into bricks and machinery. This policy may indicate more liberal dividend payments over the next year or two.

Three large steel companies—including Jones & Laughlin—on the basis of its altered depreciation charge—actually were able to record an increase in net profit for the first quarter. The other two were Armco Steel whose net went from \$1.49 a share a year ago to \$1.75 a share, and Inland Steel, whose net rose from \$1.39 to \$1.92. In each case, the ending of the excess profits tax was the major factor in the better showing, although Inland Steel was actually able to show an increase of 1.5 per cent in net sales over a year ago, when operations were interrupted by a five day strike. Inland during April was operating at 100 per cent of capacity, which points towards a good increase in net profit for this company.

Summing up the outlook, the steel industry appears to have entered a period of improved stability in earnings and production, compared with its performance in the past. Long notorious as a "prince or pauper" industry, the steelmakers are succeeding in living down their reputation for sharp fluctuations in employment and output.

This has been made possible by several important developments: First, the Government in undertaking to stabilize employment in the nation, has tended to iron out curves of consumer spending. As long as consumers continue to buy automobiles, houses and other equipment made of steel, the steel industry will operate at a good rate.

The industry has become diversified so that it is no longer dependent largely on railroads and makers of heavy machinery for the major part of its business, as it was in its early years. Then, when the railroads stopped buying or business investment was curtailed steel operations would plunge to a very low rate, because diversification was lacking in the lighter steels. Today, tin plate, sheets, wire and other products used in consumer products account for nearly 40 per cent of steel output.

In the heavier steels, too, the

industry has more stability than formerly, although, based on its performance in the first quarter rail buying has not been too stable. American industry generally appears to have adopted a much more liberal attitude towards a program of continuous new plants and machinery, and this tends to support the demand for plates, structural shapes and other heavy steels at a high rate. Moreover, there is still a huge backlog of demand for bridges, highways, schools, hospitals, etc., owing to the effects of the war and the growth of the population.

On balance, the steel industry seems to have seen the worst of its 1953-1954 recession, and should look ahead to brighter days for the next year or two at least.

1954 Outlook for Auto— Accessories—Tires

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is almost certainly destined to fall considerably short of last year's high of about 6,121,800 cars. On the basis of results thus far, optimists estimate the 1954 output may reach 5.2 million or more, but Detroit observers doubt that production in the third and fourth quarters will come up to last year's rate; accordingly, the year's factory sales may come closer to 4.5 million units than to 5 million.

With consumer income being well maintained, the environment should prove stimulating. Consumer purchases in the March quarter reached a $230 billion annual rate for an increase of $2.3 billion over the figure for the first three months of last year. Expenditures for motor cars and parts climbed to 5.6 per cent of consumer income last year from 4.4 per cent in 1952 and 4 percent in 1948. The ratio was 3.9 per cent in 1929. These compilations from the Department of Commerce indicate that purchases of parts has increased, since the ratio of factory sales of passenger cars to disposable income dipped to 3.7 per cent from a pre-Korean average of about 4.3 per cent.

Auto Parts Industry

Prospects for manufacture of accessories depend to a large extent on production schedules of passenger car and truck manufacturers, but replacement business in some instances is fairly important. Moreover, some parts makers hold military contracts that contribute volume. Earnings are governed to a considerable extent by contractural arrangements with major customers as well as by costs of materials and labor. Under conditions such as prevail currently, the position of the parts manufacturer is more difficult than when the car manufacturers are begging for increased output. Now the big manufacturers are bringing pressure to bear on their suppliers to trim prices as much as possible.

Any discussion such as this is difficult if restricted to generalities, as our readers undoubtedly realize, but it is especially unsatisfactory in commenting on an industry so constituted as automotive accessories. Success or failure is determined more often than not by the terms of a major contract or by the continuity of an affiliation with a large customer. As a general rule volume of production is vital, but there may be exceptions to this generalization. Manufacturers of safety glass, for example, have learned that profits may increase in spite of a cutback in unit output, for most 1954 models use larger windows than in previous years—and greater quantities of glass are required by motor car manufacturers. As a matter of fact, the widely adopted one-piece curved windshield is far more expensive than the type being replaced. In short, dollar volume for companies such as Libbey-Owens-Ford Glass and Pittsburgh Plate Glass have increased in face of a drop in unit sales.

Most suppliers of automotive parts are not so fortunate, however, and as a generalization it must be admitted that most companies in the industry look for lower volume in dollars as well as in units with a corresponding adverse effect on profit margins. Competitive problems encountered by practically all independent manufacturers have spread to the parts makers. This is understandable, since the accessory companies realize that unless the smaller motor car makers can offer special inducements to potential customers they are at a disadvantage. Hence, those companies which depend to a considerable extent on Studebaker, Packard, Nash-Hudson and the like appreciate the necessity of cutting costs to the bone in order to obtain orders.

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1954 Outlook for Auto — Accessories — Tires

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It scarcely is appropriate to discuss the prospects of individual companies in an article such as this because space limitations would prevent adequate coverage for all the concerns under study. Some brief observations may be in order, however, because of the difficulty in presenting a clear picture by limiting discussions to generalities. Attention may be drawn to the fact, for example, that some manufacturers—such as Bendix Aviation and Thompson Products—derive a substantial proportion of their business from the aircraft industry and may be expected to fare well so long as military expenditures remain large.

Other companies dependent in large measure on a single important customer are confronted with problems when that customer experiences a slump. Electric Auto-Lite and Motor Products, to be specific, must undertake curtailment of operations to adjust their production schedules to the abnormal decline in Chrysler's volume. Borg-Warner, on the other hand, stands to benefit from the strong consumer preference for automatic transmissions, since this manufacturer is a major supplier for General Motors and Ford models. Contraction in production of motorized equipment, especially trucks, for the armed forces points to a cutback of considerable consequence for Eaton Manufacturing. Manufacturers of roller bearings also feel the effect of reduced volume in military orders.

A problem more difficult to appraise than any other is the recent tendency on the part of car manufacturers to fashion their own components. This development represents another effort to trim costs and become more competitive. The temptation on the part of the automobile company is strong even though past experience has shown that the specialist on bumpers, or headlights, or instrument panels, or mufflers, etc., usually proves to be the lowest-cost producer. That is why so many parts makers have gained preeminent positions in their industry. They have demonstrated that the car manufacturers lack the technic required to gain the greatest manufacturing efficiency on a single item or on a special group.

The decision of Chrysler Corporation to expand its sphere of production to encompass bodies—and perhaps other major components—will be watched with interest as a clue to the possible spread of the idea.

Theoretically most of the larger companies in this category would stand to benefit from elimination of excess profits taxes this year, but actually it is believed that the greater part of potential gains may be counterbalanced by price cuts granted in an effort to hold contracts. Accordingly, it would be logical to anticipate narrower profit margins, especially for those companies dependent largely on smalle rmanufacturers. Dividends may need to be trimmed further by several parts makers.

(Note: A review of the tire industry, which is part of this article, will appear in the next issue).

1954 First Quarter Earnings

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profit margins will remain satisfactory though net may be held to around $5 a share as compared with $5.42 a share in 1953. The company is active in the creation and development of new products, and recent activities related to the chemical and pharmaceutical fields appear to hold considerable promise in expanding the sales base for the company.

GILLETTE CO. The company showed a $4.4 milion increase in sales during the first quarter of 1954 as against the corresponding period of 1953. Sales were $36.8 million for the quarter, compared with $32.4 million. Earnings showed up well, with $1.59 a share, compared with $1.08 a share in the first quarter of last year. The increase in earnings is attributed in part to the end of the excess profits tax, both here and in Britain. Higher earnings were also facilitated through increased foreign operations and through expansion of "Toni" sales. The company is favored by realization of U. S. dollars from its Brazilian subsidiary and also

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BOOK REVIEW

Brittanica Language Dictionary

This magnificent work published by Encyclopaedia Brittanica is the first of its kind. It comprises a unique intertranslation of a number of major languages, so arranged as to give the reader an instant equivalent of word meanings. For those interested in expanding their conversational ability in these languages there is a supplement giving pronunciations and phrases in common usage. The work comes in three massive volumes.

Encyclopaedia Brittanica Press $35.00

1954 1st Quarter Earnings

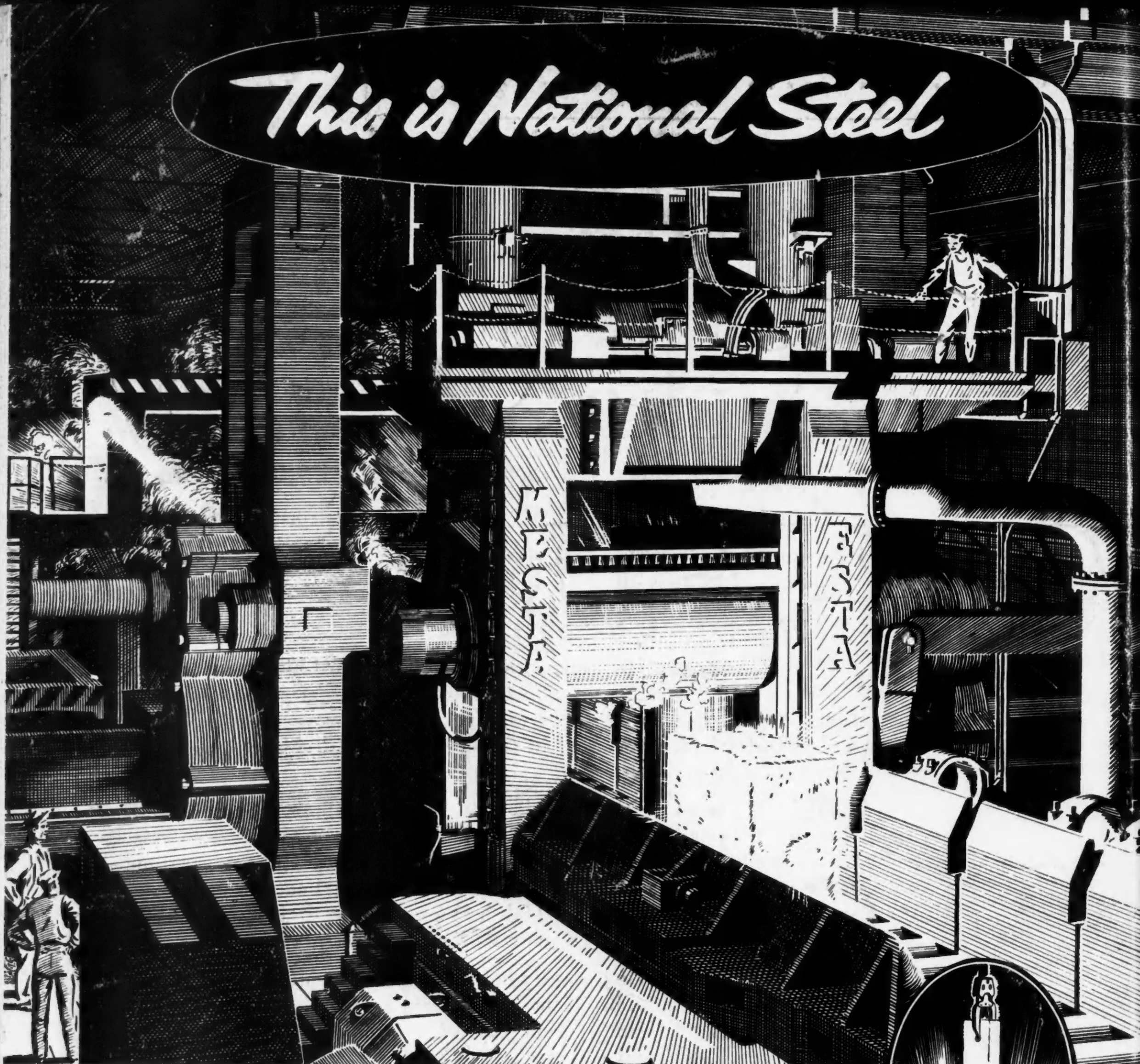
(*Continued from page* 258)

from the receipt of dollar dividends from its German subsidiary. While the company has been receiving German disbursements in 1952 and 1953, these were at substantially lower rates of exchange as compared with current rates which are based on official dollars. Factory shipments by the safety razor division are increasing as compared with the same period last year. In 1953, the company disbursed the equivalent of $1.06 a share for both U. S. and British excess profits taxes. Savings of at least this size should accrue to the company this year, thus adding to net earnings. In 1953, earnings were $4.36 a share. In consideration of the high volume of sales and the prospective savings from EPT, an increase in net is expected this year.

SHELL OIL CO. Sales in the first quarter increased spectacularly to $330 million, compared with $300 million in the corresponding period last year. At the same time, net per share advanced to $2.42 a share against $1.90 a share. (Total profits for 1953 were $8.40 a share.) Apparently crude production is maintained at high levels and sales have been stimulated by continued demand for Shell's TCP, the new premium gasoline introduced last year. Demand for commercial aviation gasoline remains at a peak. In this field, the company is the largest supplier. The company's exploration program is very active, with success especially noted in its development of areas in the Williston Basin. Since consumption of petroleum products remains at very high levels and is likely to remain so, it is probable that the company will earn at least as much as in 1953.

AMERICAN CYANAMID CO. This company had a rather substantial decline in net earnings in the first quarter of 1954 as compared with the corresponding period of last year. However, earnings were higher than for any of the preceding three quarters. Comparing the March quarters of 1954 and 1953, we find that the decline in net was caused primarily by a $4.6 million decline in sales. Also contributing was the decline in miscellaneous income, in particular, from royalties, licenses, etc., the latter amounting to a decline of almost $1.2 million. At the same time, there were increases in selling and administrative expenses, in addition to higher charges for depreciation and research and development expenses. Offsetting these charges to some extent was the decline of $2.6 million in provision for federal and foreign income taxes. The company has not indicated the reason for the higher operating expenses but this may be due, in part, to the continued mixed conditions in the drug industry to which this company is an important contributor. Also, it may be surmised that sales of chemicals to supply agricultural interests may have been affected by less prosperous farm conditions. On the other hand, sales of the numerous other products of the company have held up well. Earnings for the next few months will probably hold to the average for the past three quarters. In 1953, the company earned $3.15 a share and should earn approximately the same this year.

HERCULES POWDER CO. The importance of the ending of the excess profits tax is illustrated by the fact that Hercules Powder Co. sales for the first quarter of 1954 declined some $3.5 million, as compared with the same period of 1953, but earnings nevertheless rose from $1.16 a share to $1.21 a share. Last year, EPT reduced earnings by about $1.10 a share. The savings effected this year is consequently reflected in the improved earnings statement for the first quarter. However, the effects of layoffs in the Radford, Va. arsenal have probably not been fully reflected and may show up in the June statement. New plants for production of new chemicals as important raw materials for new synthetic fibres and for films and plastics, in addition to phenol and acetone, are expected to be completed this year and should add substantially to the company's potential earnings base. The company earned $4.20 a share last year. Benefiting from the lapse of EPT and the generally strong sales position, though not in all divisions, the company should be able to approximate last year's earnings in 1954.



NATIONAL STEEL

Putting the squeeze on bigger ingots in this giant new slabbing mill

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